

# **CITY OF LOS ANGELES**

## **Audit Report**

### **ANIMAL ADOPTION PROGRAM**

Chapter 752, Statutes of 1998,  
and Chapter 313, Statutes of 2004

*July 1, 1998, through June 30, 2008,  
excluding July 1, 2003, through June 30, 2005*



**JOHN CHIANG**  
California State Controller

April 2011



**JOHN CHIANG**  
**California State Controller**

April 6, 2011

The Honorable Antonio R. Villaraigosa  
Mayor of the City of Los Angeles  
200 North Main Street, Suite 303  
Los Angeles, CA 90012

Dear Mayor Villaraigosa:

The State Controller's Office audited the costs claimed by the City of Los Angeles for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005.

The city claimed \$13,368,151 (\$13,390,008 less a \$21,857 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$7,942,338 is allowable and \$5,425,813 is unallowable. The costs are unallowable primarily because the city claimed ineligible costs, claimed estimated costs, claimed unsupported costs, understated the number of non-medical records, understated the annual animal census data, overstated the number of eligible animals, understated productive hourly rates, and misstated indirect cost rates. The State paid the city \$8,303,862. The amount paid exceeds allowable costs claimed by \$361,524.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/wm

cc: Wendy Greuel, City Controller  
City of Los Angeles  
Brenda Barnette, General Manager  
Animal Services Department, City of Los Angeles  
Jeff Carosone, Principal Program Budget Analyst  
Cor-Gen Unit, Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Los Angeles for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005.

The city claimed \$13,368,151 (\$13,390,008 less a \$21,857 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$7,942,338 is allowable and \$5,425,813 is unallowable. The costs are unallowable primarily because the city claimed ineligible costs, claimed estimated costs, claimed unsupported costs, understated the number of non-medical records, understated the annual animal census data, overstated the number of eligible animals, understated productive hourly rates, and misstated indirect cost rates. The State paid the city \$8,303,862. The amount paid exceeds allowable costs claimed by \$361,524

## Background

Food and Agriculture Code sections 31108, 31752-31753, 32001, and 32003 (added and amended by Chapter 752, Statutes of 1998) attempted to end the euthanasia of adoptable and treatable animals. It expressly identifies the state policy that "no adoptable animal should be euthanized if it can be adopted into a suitable home" and that "no treatable animal should be euthanized." The legislation increases the holding period for stray and abandoned dogs, cats, and other specified animals. It also requires public or private shelters to:

- Verify the temperament of feral cats;
- Post lost and found lists;
- Maintain records for impounded animals; and
- Ensure that impounded animals receive necessary and prompt veterinary care.

On January 25, 1981, the Commission on State Mandates (CSM) determined that Chapter 752, Statutes of 1998, imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on February 28, 2002, corrected them on March 20, 2002, and last amended them on January 26, 2006. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

For fiscal year (FY) 2003-04, the Legislature suspended the Animal Adoption Program.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Animal Adoption Program for the period of July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the City of Los Angeles claimed \$13,368,151 (\$13,390,008 less a \$21,857 penalty for filing a late claim) for costs of the Animal Adoption Program. Our audit disclosed that \$7,942,338 is allowable and \$5,425,813 is unallowable.

For the FY 1998-99 claim, the State paid the city \$759,353. Our audit disclosed that \$314,199 is allowable. The State will offset \$445,154 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 1999-2000 claim, the State paid the city \$2,081,935. Our audit disclosed that \$1,125,848 is allowable. The State will offset \$956,087 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2000-01 claim, the State paid the city \$2,172,046. Our audit disclosed that \$1,337,003 is allowable. The State will offset \$835,043 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2001-02 claim, the State made no payment to the city. Our audit disclosed that \$1,040,998 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,040,998, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the city. Our audit disclosed that \$865,501 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$865,501, contingent upon available appropriations.

For the FY 2005-06 claim, the State paid the city \$1,463,827. Our audit disclosed that \$1,143,476 is allowable. The State will offset \$320,351 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2006-07 claim, the State paid the city \$1,826,701. Our audit disclosed that \$1,065,939 is allowable. The State will offset \$760,762 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2007-08 claim, the State made no payment to the city. Our audit disclosed that \$1,049,374 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,049,374, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on March 10, 2011. Brenda Barnette, General Manager, responded by letter dated March 29, 2011 (Attachment), expressing general disagreement with the audit process without responding to any specific audit findings.

**Restricted Use**

This report is solely for the information and use of the City of Los Angeles, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

April 6, 2011

# Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2008

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 1998, through June 30, 1999</u>				
Direct costs:				
Training	\$ 9,468	\$ 563	\$ (8,905)	Finding 1
Computer software	1,855	1,062	(793)	Finding 2
Care of maintenance of dogs and cats	186,383	—	(186,383)	Finding 3
Care and maintenance of other animals	5,510	3,156	(2,354)	Finding 3
Increased holding period	337,191	90,266	(246,925)	Finding 4
Lost and found lists	12,655	3,852	(8,803)	Finding 5
Non-medical records	47,236	56,834	9,598	Finding 6
Necessary and prompt veterinary care	50,984	25,409	(25,575)	Finding 7
Total direct costs	651,282	181,142	(470,140)	
Indirect costs	108,071	133,057	24,986	Finding 9
Total program costs	<u>\$ 759,353</u>	314,199	<u>\$ (445,154)</u>	
Less amount paid by the State		(759,353)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (445,154)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Training	\$ 5,357	\$ 3,897	\$ (1,460)	Finding 1
Computer software	131,896	45,453	(86,443)	Finding 2
Care and maintenance of dogs and cats	577,369	375,062	(202,307)	Finding 3
Care and maintenance of other animals	40,450	7,031	(33,419)	Finding 3
Increased holding period	754,105	201,949	(552,156)	Finding 4
Lost and found lists	26,185	8,615	(17,570)	Finding 5
Non-medical records	140,516	127,181	(13,335)	Finding 6
Necessary and prompt veterinary care	129,149	56,834	(72,315)	Finding 7
Total direct costs	1,805,027	826,022	(979,005)	
Indirect costs	276,908	299,826	22,918	Finding 9
Total program costs	<u>\$ 2,081,935</u>	1,125,848	<u>\$ (956,087)</u>	
Less amount paid by the State		(2,081,935)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (956,087)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Training	\$ 3,521	\$ 2,572	\$ (949)	Finding 1
Computer software	145,193	54,313	(90,880)	Finding 2
Care and maintenance of dogs and cats	463,535	487,021	23,486	Finding 3
Care and maintenance of other animals	13,107	7,157	(5,950)	Finding 3
Increased holding period	784,231	211,205	(573,026)	Finding 4
Lost and found lists	30,373	9,008	(21,365)	Finding 5
Non-medical records	126,793	135,995	9,202	Finding 6
Necessary and prompt veterinary care	308,004	67,504	(240,500)	Finding 7



**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2000, through June 30, 2001 (continued)</u>				
Total direct costs	1,874,757	974,775	(899,982)	Finding 9
Indirect costs	297,289	362,228	64,939	
Total program costs	<u>\$ 2,172,046</u>	1,337,003	<u>\$ (835,043)</u>	
Less amount paid by the State		<u>(2,172,406)</u>		
Allowable costs claimed in excess of less than) amount paid		<u>\$ (835,043)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Training	\$ 3,070	\$ 2,261	\$ (809)	Finding 1
Computer software	123,836	72,576	(51,260)	Finding 2
Care and maintenance of dogs and cats	686,106	307,530	(378,576)	Finding 3
Care and maintenance of other animals	21,184	7,358	(13,826)	Finding 3
Increased holding period	805,160	213,025	(592,135)	Finding 4
Lost and found lists	79,450	9,087	(70,363)	Finding 5
Non-medical records	26,714	131,162	104,448	Finding 6
Necessary and prompt veterinary care	244,864	51,839	(193,025)	Finding 7
Total direct costs	1,990,384	794,838	(1,195,546)	Finding 9
Indirect costs	701,641	268,017	(433,624)	
Total direct and indirect costs	2,692,025	1,062,855	(1,629,170)	
Less late penalty	<u>(21,857)</u>	<u>(21,857)</u>	—	
Total program costs	<u>\$ 2,670,168</u>	1,040,998	<u>\$ (1,629,170)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,040,998</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Training	\$ 1,130	\$ 550	\$ (580)	Finding 1
Computer software	58,826	29,413	(29,413)	Finding 2
Care and maintenance of dogs and cats	291,737	228,809	(62,928)	Finding 3
Care and maintenance of other animals	12,018	5,642	(6,376)	Finding 3
Increased holding period	115,785	218,413	102,628	Finding 4
Lost and found lists	9,371	9,318	(53)	Finding 5
Non-medical records	23,921	124,455	100,534	Finding 6
Necessary and prompt veterinary care	226,389	38,753	(187,636)	Finding 7
Procuring equipment	78,179	12,932	(65,247)	Finding 8
Total direct costs	817,356	668,285	(149,071)	Finding 9
Indirect costs	160,758	197,216	36,458	
Total program costs	<u>\$ 978,114</u>	865,501	<u>\$ (112,613)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 865,501</u>		

**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Training	\$ 2,735	\$ 4,590	\$ 1,855	Finding 1
Computer software	30,522	27,261	(3,261)	Finding 2
Care and maintenance of dogs and cats	244,197	233,359	(10,838)	Finding 3
Care and maintenance of other animals	37,227	15,318	(21,909)	Finding 3
Increased holding period	246,783	295,417	48,634	Finding 4
Lost and found lists	12,237	12,600	363	Finding 5
Non-medical records	30,738	155,122	124,384	Finding 6
Necessary and prompt veterinary care	379,918	40,823	(339,095)	Finding 7
Total direct costs	984,357	784,490	(199,867)	
Indirect costs	479,470	358,986	(120,484)	Finding 9
Total program costs	<u>\$ 1,463,827</u>	<u>1,143,476</u>	<u>\$ (320,351)</u>	
Less amount paid by the State		<u>(1,463,827)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (320,351)</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Training	\$ 5,936	\$ 5,625	\$ (311)	Finding 1
Computer software	33,385	28,693	(4,692)	Finding 2
Care and maintenance of dogs and cats	193,875	196,262	2,387	Finding 3
Care and maintenance of other animals	99,093	17,929	(81,164)	Finding 3
Increased holding period	550,209	308,794	(241,415)	Finding 4
Lost and found lists	13,016	13,364	348	Finding 5
Non-medical records	20,871	156,162	135,291	Finding 6
Necessary and prompt veterinary care	391,374	40,429	(350,945)	Finding 7
Total direct costs	1,307,759	767,258	(540,501)	
Indirect costs	518,942	298,681	(220,261)	Finding 9
Total program costs	<u>\$ 1,826,701</u>	<u>1,065,939</u>	<u>\$ (760,762)</u>	
Less amount paid by the State		<u>(1,826,701)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (760,762)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Training	\$ 2,928	\$ 4,647	\$ 1,719	Finding 1
Computer software	—	12,000	12,000	Finding 2
Care and maintenance of dogs and cats	194,118	231,063	36,945	Finding 3
Care and maintenance of other animals	44,252	19,581	(24,671)	Finding 3
Increased holding period	293,501	302,164	8,663	Finding 4
Lost and found lists	12,206	13,270	1,064	Finding 5
Non-medical records	51,878	178,308	126,430	Finding 6
Necessary and prompt veterinary care	462,329	43,577	(418,752)	Finding 7

**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2007, through June 30, 2008 (continued)</u>				
Total direct costs	1,061,212	804,610	(256,602)	Finding 9
Indirect costs	354,795	244,764	(110,031)	
Total program costs	<u>\$ 1,416,007</u>	<u>1,049,374</u>	<u>\$ (366,633)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,049,374</u>		
<u>Summary: July 1, 1998, through June 30, 2008</u>				
Direct costs:				
Training	\$ 34,145	\$ 24,705	\$ (9,440)	
Computer software	525,513	270,771	(254,742)	
Care and maintenance of dogs and cats	2,837,320	2,059,106	(778,214)	
Care and maintenance of other animals	272,841	83,172	(189,669)	
Increased holding period	3,886,965	1,841,233	(2,045,732)	
Lost and found lists	195,493	79,114	(116,379)	
Non-medical records	468,667	1,065,219	596,552	
Necessary and prompt veterinary care	2,193,011	365,168	(1,827,843)	
Procuring equipment	78,179	12,932	(65,247)	
Total direct costs	10,492,134	5,801,420	(4,690,714)	
Indirect costs	2,897,874	2,162,775	(735,099)	
Total direct and indirect costs	13,390,008	7,964,195	(5,425,813)	
Less late penalty	(21,857)	(21,857)	—	
Total program costs	<u>\$ 13,368,151</u>	<u>7,942,338</u>	<u>\$ (5,425,813)</u>	
Less amount paid by the State		(8,303,862)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (361,524)</u>		
<u>Recap: by Object Account</u>				
Direct costs:				
Salaries and benefits	\$ 5,772,308	\$ 3,435,113	\$ (2,337,195)	
Materials and supplies	4,641,647	2,353,375	(2,288,272)	
Fixed assets	78,179	12,932	(65,247)	
Total direct costs	10,492,134	5,801,420	(4,690,714)	
Indirect costs	2,897,874	2,162,775	(735,099)	
Less late payment penalty	(21,857)	(21,857)	—	
Total program costs	<u>\$ 13,368,151</u>	<u>\$ 7,942,338</u>	<u>\$ (5,425,813)</u>	

<sup>1</sup> See the Findings and Recommendations section.

**Schedule 2—  
Summary of Care and Maintenance Costs  
July 1, 1998, through June 30, 2003  
and July 1, 2005, through June 30, 2008**

Category	Actual Costs Claimed	Allowable Per Audit			Audit Adjustments
		Salaries, Benefits, and Related Indirect Costs	Materials and Supplies	Total	
<u>January 1, 1999, through June 30, 1999</u>					
Total care and maintenance costs	\$ 3,398,931	\$ 4,294,154	\$ 103,013		
Total animal census	÷ 258,420	÷ 476,517	÷ 476,517		
Cost per day	<u>\$13.12</u>	<u>\$ 9.01</u>	<u>\$ 0.22</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$13.12	\$ 9.01	\$ 0.22		
Number of eligible dogs and cats	× 7,103	× —	× —		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	<u>\$ 186,383</u>	<u>\$ —</u>	<u>\$ —</u>	\$ —	\$ (186,383)
Care and maintenance of other “eligible” animals:					
Cost per day	13.12	\$ 9.01	\$ 0.22		
Number of eligible other animals	× 105	× 57	× 57		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	<u>\$ 5,510</u>	<u>\$ 3,081</u>	<u>\$ 75</u>	3,156	(2,354)
Total care and maintenance	<u>\$ 191,893</u>	<u>\$ 3,081</u>	<u>\$ 75</u>	<u>\$ 3,156</u>	<u>\$ (188,737)</u>
<u>July 1, 1999, through June 30, 2000</u>					
Total care and maintenance costs	\$ 4,304,979	\$ 4,801,703	\$ 136,599		
Total animal census	÷ 258,420	÷ 476,517	÷ 476,517		
Cost per day	<u>\$16.66</u>	<u>\$10.08</u>	<u>\$ 0.29</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$16.66	\$10.08	\$ 0.29		
Number of eligible dogs and cats	× 17,328	× 12,056	× 12,056		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	<u>\$ 577,369</u>	<u>\$ 364,573</u>	<u>\$ 10,489</u>	\$ 375,062	\$ (202,307)
Care and maintenance of other “eligible” animals:					
Cost per day	\$16.66	\$10.08	\$ 0.29		
Number of eligible other animals	× 607	× 113	× 113		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	<u>\$ 40,450</u>	<u>\$ 6,834</u>	<u>\$ 197</u>	7,031	(33,419)
Total care and maintenance	<u>\$ 617,819</u>	<u>\$ 371,407</u>	<u>\$ 10,686</u>	<u>\$ 382,093</u>	<u>\$ (235,726)</u>
<u>July 1, 2000, through June 30, 2001</u>					
Total care and maintenance costs	\$ 4,890,106	\$ 5,299,831	\$ 74,446		
Total animal census	÷ 322,295	÷ 455,088	÷ 455,088		
Cost per day	<u>\$15.17</u>	<u>\$11.65</u>	<u>\$ 0.16</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$15.17	\$11.65	\$ 0.16		
Number of eligible dogs and cats	× 15,278	× 13,746	× 13,746		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	<u>\$ 463,535</u>	<u>\$ 480,423</u>	<u>\$ 6,598</u>	\$ 487,021	\$ 23,486

## Schedule 2 (continued)

Category	Actual Costs Claimed	Allowable Per Audit			Audit Adjustments
		Salaries, Benefits, and Related Indirect Costs	Materials and Supplies	Total	
<u>January 1, 2000, through June 30, 2001 (continued)</u>					
Care and maintenance of other “eligible” animals:					
Cost per day	\$15.17	\$11.65	\$ 0.16		
Number of eligible other animals	× 216	× 101	× 101		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	\$ 13,107	\$ 7,060	\$ 97	7,157	(5,950)
Total care and maintenance	\$ 476,642	\$ 487,483	\$ 6,695	\$ 494,178	\$ 17,536
<u>July 1, 2001, through June 30, 2002</u>					
Total care and maintenance costs	\$ 6,899,953	\$ 4,792,766	\$ 131,473		
Total animal census	÷ 272,290	÷ 497,945	÷ 497,945		
Cost per day	\$25.34	\$ 9.63	\$ 0.26		
Care and maintenance of dogs and cats:					
Cost per day	\$25.34	\$ 9.63	\$ 0.26		
Number of eligible dogs and cats	× 13,538	× 10,365	× 10,365		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	\$ 686,106	\$ 299,445	\$ 8,085	\$ 307,530	\$ (378,576)
Care and maintenance of other “eligible” animals:					
Cost per day	\$25.34	\$ 9.63	\$ 0.26		
Number of eligible other animals	× 209	× 124	× 124		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	\$ 21,184	\$ 7,165	\$ 193	7,358	(13,826)
Total care and maintenance	\$ 707,290	\$ 306,610	\$ 8,278	\$ 314,888	\$ (392,402)
<u>July 1, 2002, through June 30, 2003</u>					
Total care and maintenance costs	\$ 6,257,289	\$ 4,405,861	\$ 141,952		
Total animal census	÷ 449,730	÷ 450,176	÷ 450,176		
Cost per day	\$13.91	\$ 9.79	\$ 0.32		
Care and maintenance of dogs and cats:					
Cost per day	\$13.91	\$ 9.79	\$ 0.32		
Number of eligible dogs and cats	× 10,484	× 7,544	× 7,544		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	\$ 291,737	\$ 221,567	\$ 7,242	\$ 228,809	\$ (62,928)
Care and maintenance of other “eligible” animals:					
Cost per day	\$13.91	\$ 9.79	\$ 0.32		
Number of eligible other animals	× 216	× 93	× 93		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	\$ 12,018	\$ 5,463	\$ 179	5,642	(6,376)
Total care and maintenance costs	\$ 303,755	\$ 227,030	\$ 7,421	\$ 234,451	\$ (69,304)
<u>July 1, 2005, through June 30, 2006</u>					
Total care and maintenance costs	\$ 10,487,509	\$ 6,775,244	\$ 223,754		
Total animal census	÷ 509,248	÷ 515,312	÷ 515,312		
Cost per day	\$20.59	\$13.15	\$ 0.43		
Care and maintenance of dogs and cats:					
Cost per day	\$20.59	\$13.15	\$ 0.43		
Number of eligible dogs and cats	× 5,930	× 5,728	× 5,728		
Reimbursable days	× 2	× 3	× 3		

**Schedule 2 (continued)**

Category	Actual Costs Claimed	Allowable Per Audit			Audit Adjustments
		Salaries, Benefits, and Related Indirect Costs	Materials and Supplies	Total	
<u>July 1, 2005, through June 30, 2006 (continued)</u>					
Total care and maintenance costs for dogs and cats	\$ 244,197	\$ 225,970	\$ 7,389	\$ 223,359	\$ (10,3838)
Care and maintenance of other “eligible” animals:					
Cost per day	\$20.59	\$ 13.15	\$ 0.43		
Number of eligible other animals	452	188	× 188		
Reimbursable days	4	6	× 6		
Total care and maintenance costs for other animals	\$ 37,227	\$ 14,833	\$ 485	15,318	(21,909)
Total care and maintenance costs	<u>\$ 281,424</u>	<u>\$ 240,803</u>	<u>\$ 7,874</u>	<u>\$ 248,677</u>	<u>\$ (32,747)</u>
<u>July 1, 2006, through June 30, 2007</u>					
Total care and maintenance costs	\$ 11,585,706	\$ 8,687,989	\$ 329,620		
Total animal census	÷ 655,576	÷ 706,491	÷ 706,491		
Cost per day	<u>\$17.67</u>	<u>\$12.30</u>	<u>\$ 0.47</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$17.67	\$12.30	\$ 0.47		
Number of eligible dogs and cats	× 5,486	× 5,123	× 5,123		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	<u>\$ 193,875</u>	<u>\$ 189,039</u>	<u>\$ 7,223</u>	\$ 196,262	\$ 2,387
Care and maintenance of other “eligible” animals:					
Cost per day	\$17.67	\$12.30	\$ 0.47		
Number of eligible other animals	× 1,402	× 234	× 234		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	<u>\$ 99,093</u>	<u>\$ 17,269</u>	<u>\$ 660</u>	17,929	(81,164)
Total care and maintenance costs	<u>\$ 292,968</u>	<u>\$ 206,308</u>	<u>\$ 7,883</u>	<u>\$ 214,191</u>	<u>\$ (78,777)</u>
<u>July 1, 2007, through June 30, 2008</u>					
Total care and maintenance costs	\$ 12,856,179	\$ 10,432,321	\$ 539,706		
Total animal census	÷ 799,326	÷ 816,858	÷ 816,858		
Cost per day	<u>\$16.08</u>	<u>\$ 12.77</u>	<u>\$ 0.66</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$16.08	\$12.77	\$ 0.66		
Number of eligible dogs and cats	× 6,036	× 5,735	× 5,735		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	<u>\$ 194,118</u>	<u>\$ 219,708</u>	<u>\$ 11,355</u>	\$ 231,063	\$ 36,945
Care and maintenance of other “eligible” animals:					
Cost per day	\$16.08	\$12.77	\$ 0.66		
Number of eligible other animals	× 688	× 243	× 243		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	<u>\$ 44,252</u>	<u>\$ 18,619</u>	<u>\$ 962</u>	19,581	(24,671)
Total care and maintenance costs	<u>\$ 238,370</u>	<u>\$ 238,327</u>	<u>\$ 12,317</u>	<u>\$ 250,644</u>	<u>\$ 12,274</u>
<u>Summary: July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005</u>					
Care and maintenance of dogs and cats	\$ 2,837,320	\$ 2,000,725	\$ 58,381	\$ 2,059,106	\$ (778,214)
Care and maintenance of other 'eligible' animals	272,841	80,324	2,848	83,172	(189,669)
Total care and maintenance costs	<u>\$ 3,110,161</u>	<u>\$ 2,081,049</u>	<u>\$ 61,229</u>	<u>\$ 2,142,278</u>	<u>\$ (967,883)</u>

# Findings and Recommendations

## **FINDING 1— Overstated training costs**

The city claimed \$34,145 for training costs during the audit period. We determined that \$24,705 is allowable and \$9,440 is unallowable. The costs were unallowable because the city overstated training hours for new employees (\$15,309) and understated productive hourly rates (\$5,869).

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and Benefits:			
1998-99	\$ 9,468	\$ 563	\$ (8,905)
1999-2000	5,357	3,897	(1,460)
2000-01	3,521	2,572	(949)
2001-02	3,070	2,261	(809)
2002-03	1,130	550	(580)
2005-06	2,735	4,590	1,855
2006-07	5,936	5,625	(311)
2007-08	2,928	4,647	1,719
Total	<u>\$ 34,145</u>	<u>\$ 24,705</u>	<u>\$ (9,440)</u>

### *Overstated Training Hours*

The city claimed training hours for Chameleon software for all newly hired employees within the Training Costs component. During our fieldwork, the Animal Services Department provided a sample training agenda to showcase the multitude of topics covered during the training process. The department pro-rated a portion of the training time and claimed three- and two-hour increments in different fiscal periods attributed to the portion of training related to Chameleon software. The department provided a list of all new hires throughout the audit period. We calculated allowable hours based on the list of new hires provided by the department.

We concluded that the three- and two-hour training increments claimed were reasonable. However, we noted that the number of new employees reported on the claims was misstated. Subsequently, we determined that the city overstated 39 hours spent on training activities during the first four years of the audit period and understated 24 hours spent on training activities during the last four years of the audit period. As a result, allowable costs were overstated by \$15,309 during the audit period.

### *Misstated Productive Hourly Rates*

The city incorrectly calculated employee productive hourly rates during the audit period. The rates were calculated based on budgeted information rather than the actual payroll. We recalculated all productive hourly rates for all classifications of employees based on the actual annual payroll information.

During fieldwork, we received and were able to analyze the actual payroll summaries for all classifications of employees included in the claims for the last three years of the audit period fiscal year (FY) 2005-06 through FY 2007-08). However, the actual payroll information was not available for the earlier five years of the audit period. We used a consumer price index to deflate the amounts paid for labor in prior years. Our analysis revealed that the claimed productive hourly rates were generally understated. We used the revised rates in our calculations of allowable costs for all cost components. For the Training cost component, we determined that allowable costs were understated by \$5,869.

*Summary of Productive Hourly Rate Adjustments by Reimbursable Components*

The productive hourly rate calculation noted previously also affected the following reimbursable components:

<u>Reimbursable Component</u>	<u>Audit Adjustment</u>
Training	\$ 5,869
Computer software	1,707
Increased holding period	126,963
Lost and found lists	3,097
Non-medical records	35,708
Veterinary care	1,658
Total	<u>\$ 175,002</u>

The program's parameters and guidelines allow reimbursement for the one-time activity of providing training to staff on reimbursable activities.

Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

City's Response

The city did not provide a response to this specific finding. However, the city did comment on the audit process and the audit findings in general. See the city's response under "Other Issues."



**FINDING 2—  
Overstated computer  
software costs**

The city claimed \$525,513 for computer software costs during the audit period. We determined that \$270,771 is allowable and \$254,742 is unallowable (\$56,259 for salaries and benefits and \$198,483 for materials and supplies). The material and supply costs were unallowable because the city did not pro-rate computer equipment and software costs attributed to the mandated activities (\$164,849), claimed unsupported costs (\$41,889), claimed unallowable invoices (\$37,991), and did not claim allowable costs of \$46,246. The salary and benefit costs were unallowable because the city did not pro-rate the Chameleon maintenance hours attributed to the mandated activities (\$57,966) and understated productive hourly rates (\$1,707).

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1998-99	\$ 1,855	\$ 1,062	\$ (793)
1999-2000	5,237	2,997	(2,240)
2000-01	4,655	3,110	(1,545)
2001-02	5,453	3,138	(2,315)
2002-03	34,826	17,413	(17,413)
2005-06	30,522	15,261	(15,261)
2006-07	33,385	16,693	(16,692)
Total salaries and benefits	115,933	59,674	(56,259)
Materials and supplies:			
1999-2000	126,659	42,456	(84,203)
2000-01	140,538	51,203	(89,335)
2001-02	118,383	69,438	(48,945)
2002-03	24,000	12,000	(12,000)
2005-06	—	12,000	12,000
2006-07	—	12,000	12,000
2007-08	—	12,000	12,000
Total materials and supplies	409,580	211,097	(198,483)
Total	\$ 525,513	\$ 270,771	\$ (254,742)

*Chameleon System Screens Analysis*

The Los Angeles Animal Services Department purchased Chameleon software for FY 1999-2000. All of the city's shelters use the Chameleon system to maintain animal records. The Chameleon database has various screens that contain options for storing animal information. Some screens relate to the mandated activities and some do not.

The department performed an analysis of its Chameleon software system to determine the extent the system was used for mandated activities. In this analysis, the department identified the following 10 screens and the approximate percentages of those screens as they relate to the entire software system:

1. Animal Window – 11%
2. Kennel Window – 20%
3. Cham Cam – 4%
4. Person Window – 7%
5. Tag / Link Window – 10%

6. Receipt Window – 13%
7. Treatment and To Do Window – 15%
8. Activity and Dispatch Windows – 10%
9. Memo Window – 5%
10. Other Windows – 5%

In suggesting percentages for each of the screens, the department took into consideration how much time, on average, shelter staff spends noting information in each screen, how often these screens get updated, and the approximate amount of information contained within each screen.

Per discussions with the department's staff, we determined that 5 of the 10 screens identified above have a direct relation to the mandated activities. The mandate-related screens are as follows:

1. Animal Window
2. Kennel Window
3. Cham Cam
4. Person Window
5. Memo Window

We determined that the mandate-related windows comprise approximately 50% of the total Chameleon screens and information contained in those screens. We applied this 50% pro-rata percentage to all allowable costs in our calculations. Subsequently, we concluded that the city overstated allowable computer equipment costs totaling \$164,849 and overstated salary and benefit costs totaling \$57,966 during the audit period.

#### *Misstated and Unsupported Computer Equipment Costs*

The city was unable to provide invoices for all computer purchases claimed throughout the audit period. The unsupported portion of the costs totaled \$41,889. In addition, the city claimed unallowable costs totaling \$37,991 for FY 2000-01. The unallowable costs consisted of one license-renewal fee that was claimed twice in the same fiscal year and one invoice containing generic software licenses that were unrelated to Chameleon software. In addition, the city did not include in its claims additional costs totaling \$46,246 for FY 2001-02 and FY 2005-06 through FY 2007-08. The additional amount includes additional invoices totaling \$10,246 for computer hardware for FY 2001-02 and Chameleon licensing fees totaling \$36,000 for FY 2005-06 through FY 2007-08.

#### *Understated Productive Hourly Rates*

As identified in Finding 1, the city generally understated employee productive hourly rates. We applied the adjusted rates and determined that allowable costs for this component were understated by \$1,707.

The parameters and guidelines allow reimbursement for developing or procuring computer software for the maintenance of specified animal records. In addition, the parameters and guidelines state that if the computer software is used in a way that is not directly related to the

maintenance of animal records, then only the pro-rata portion of the activity that is used for compliance with the mandated program is reimbursable.

Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

City's Response

The city did not provide a response to this specific finding. However, the city did comment on the audit process and the audit findings in general. See the city's response under "Other Issues."

**FINDING 3—  
Overstated care and  
maintenance costs**

The city claimed \$3,110,161 for care and maintenance costs during the audit period. We determined that \$2,142,278 is allowable and \$967,883 is unallowable. The costs were unallowable because the city incorrectly reported annual expenditures attributed to the care and maintenance function, incorrectly calculated the yearly census of dogs and cats and other animals, and subsequently overstated the claimed costs per animal per day in each fiscal period. In addition, the city incorrectly calculated the number of eligible stray dogs and cats and other animals that died during the increased holding period or were ultimately euthanized. The city also used an incorrect number of reimbursable days for this component.

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

	Amount Claimed			Amount Allowable			
Fiscal Year	Dogs/Cats	Other Animals	Total Claimed	Dogs/Cats	Other Animals	Total Allowable	Audit Adjustment
Care and maintenance:							
1998-99	\$ 186,383	\$ 5,510	\$ 191,893	\$ —	\$ 3,156	\$ 3,156	\$ (188,737)
1999-2000	577,369	40,450	617,819	375,062	7,031	382,093	(235,726)
2000-01	463,535	13,107	476,642	487,021	7,157	494,178	17,536
2001-02	686,106	21,184	707,290	307,530	7,358	314,888	(392,402)
2002-03	291,737	12,018	303,755	228,809	5,642	234,451	(69,304)
2005-06	244,197	37,227	281,424	233,359	15,318	248,677	(32,747)
2006-07	193,875	99,093	292,968	196,262	17,929	214,191	(78,777)
2007-08	194,118	44,252	238,370	231,063	19,581	250,644	12,274
Total	\$ 2,837,320	\$ 272,841	\$ 3,110,161	\$ 2,059,106	\$ 83,172	\$ 2,142,278	\$ (967,883)

The care and maintenance formula calculations of claimed, allowable, and unallowable costs by fiscal year are presented in Schedule 2—Summary of Care and Maintenance Costs.

During our review, we noted the following issues:

- The city did not use actual expenditure amounts relating to care and maintenance to calculate the cost per animal per day. Instead, the city used budgeted expenditure amounts that were not actual costs. In addition, the costs that the city reported were not pro-rated to the portion of the costs relating to the care and maintenance functions.
- The city did not use accurate annual animal census information to calculate the cost per animal per day.
- The city overstated the cost per animal per day in each fiscal year of the audit period.
- The city did not use the accurate number of eligible dogs and cats and other animals that died during the increased holding period or were ultimately euthanized. This error occurred primarily because the city did not account for all animal population exclusions noted in the parameters and guidelines.
- The city did not use the correct number of reimbursable increased holding period days to calculate claimed costs.

Our analysis of each issue identified in this list is presented below in the same order as listed above.

*Total Annual Expenditures Related to Care and Maintenance*

The city did not use the actual expenditure amounts relating to care and maintenance that it incurred to calculate the cost per animal per day. Instead, the city used budgeted expenditure amounts that were not actual costs and were not pro-rated to the portion of the costs relating to the care and maintenance functions.

The following table summarizes claimed, allowable, and unallowable expenditure amounts used for the calculation of care and maintenance costs:

Fiscal Year	Amount Claimed	Amount Allowable			Audit Adjustment
		Salaries, Benefits and Indirect Cost	Materials and Supplies		
Care and maintenance expenditures:					
1998-99	\$ 3,398,931	\$ 4,294,154	\$ 103,013	\$ 998,236	
1999-2000	4,304,979	4,801,703	136,599	633,323	
2000-01	4,890,106	5,299,831	74,446	484,171	
2001-02	6,899,953	4,792,766	131,473	(1,975,714)	
2002-03	6,257,289	4,405,861	141,952	(1,709,476)	
2005-06	10,487,509	6,775,244	223,754	(3,488,511)	
2006-07	11,585,706	8,687,989	329,620	(2,568,097)	
2007-08	12,856,179	10,432,321	539,706	(1,884,152)	
Total	\$ 60,680,652	\$ 49,489,869	\$ 1,680,563	\$ (9,510,220)	

**Labor Costs Related to Care and Maintenance (Salaries, Benefits, and Indirect Costs)**

During the course of the audit, we requested that the city provide the actual salary amounts paid to those employee classifications directly involved with the care and maintenance function. We also requested the duty statements for such classifications to assist us in determining the percentage of daily workload that was devoted to caring and maintaining animals. The Animal Services Department provided a list of personnel who participate in the care and maintenance functions. The department also provided information relating to the involvement level of each classification and submitted job duty statements that supported the its proposed pro-rated percentages.

As proposed by the department, we used the following employee classifications and percentages of their annual salary, benefit, and related indirect costs to calculate labor costs relating to the Care and Maintenance cost component for each fiscal year:

- Animal Care Technicians (80%)
- Animal Care Technician Supervisor (40%)

We used actual annual payroll information for each employee classification for the last three years of the audit period (FY 2005-06 through FY 2007-08). However, the actual payroll information was not

available for the earlier five years of the audit period. We used a consumer price index to deflate the amounts paid for labor in these prior years.

#### Materials and Supplies Costs Related to Care and Maintenance

Subsequent to the issuance of the draft audit report, the city submitted documentation supporting actual materials and supplies expenditures incurred for care and maintenance activities. The city submitted summary reports containing year end expenditures by vendor for two accounts:

1. Account 4580 – Animal Food
2. Account 6020 – Shelters Operating Supplies

For the audit period, the year end expenses submitted totaled \$2,488,030 for both accounts. We examined the detailed spreadsheets with expenditures by vendor in both accounts to determine whether any of the submitted costs could be potentially included in our calculation of allowable care and maintenance costs. Of the \$2,488,030 in costs submitted, we concluded that costs totaling \$1,680,563 were allowable. Accordingly, we included these costs in the care and maintenance formula calculations.

The following table summarizes the amounts submitted, allowable, and audit adjustment by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Account 4580 – Animal Food:			
1998-99	\$ 79,175	\$ 79,175	\$ —
1999-2000	118,361	112,034	(6,327)
2000-01	48,325	48,325	—
2001-02	71,335	71,335	—
2002-03	76,695	76,695	—
2005-06	115,602	107,736	(7,866)
2006-07	178,828	178,828	—
2007-08	288,067	288,067	—
Total animal food	<u>976,388</u>	<u>962,195</u>	<u>(56,259)</u>
Account 6020 – Operating supplies			
1998-99	148,213	23,838	(124,375)
1999-2000	89,209	24,565	(64,644)
2000-01	126,057	26,121	(99,936)
2001-02	136,362	60,138	(76,224)
2002-03	125,345	65,257	(60,088)
2005-06	200,587	116,018	(84,569)
2006-07	325,315	150,792	(174,523)
2007-08	360,554	251,639	(108,915)
Total operating supplies	<u>1,511,642</u>	<u>718,368</u>	<u>(793,274)</u>
Total	<u>\$ 2,488,030</u>	<u>\$ 1,680,563</u>	<u>\$ (807,467)</u>

#### *Expenses Unrelated to the function of caring and maintaining animals:*

During fieldwork, we discussed with department staff the reimbursable criteria for this cost component. With the department's assistance, we identified specific types of materials and supplies expenditures that

might be allowable under the component of care and maintenance. The department's staff agreed that allowable expenditures for this component would primarily include animal food and cleaning supplies.

Upon our review of the city's additional documentation, we concluded that some expenditures were unallowable under the Care and Maintenance cost component. We excluded any expenses that were unrelated to the function of caring and maintaining the animals. The examples of unallowable expenses include the following:

- Office supplies, such, calculators, staples, office furniture, etc.
- Printing supplies, such as paper and ink
- Film processing and camera expenses
- Shooting range expenses
- Cell phone expenses
- Relocation expenses
- Expenses for animal traps
- Expenses for license tags
- Magazine subscription expenses
- Laboratory services
- Diagnostic services
- Medical waste disposal services
- Medical expenses
- Petty cash funds
- Bank card payment expenditures for the department's administrative purchases

During fieldwork and status meetings, we discussed the types of vendors and allowable expenses that could be included in our calculation of allowable care and maintenance costs. We determined that allowable expenses by vendor included the following:

- Newco Distributors – Account 4580, Vendor ID #000022807
- Empire Cleaning Supply – Account 6020, Vendor ID #000001138
- Gale Supply Co (Cleaning Supplies) – Account 6020, Vendor ID #000001313
- Animal Health and Sanitary Supply (Cleaning Supplies) – Account 6020, Vendor ID #000041889
- C Specialties Inc (Animal Care Products) – Account 6020, Vendor ID #000038437
- BJ Enterprises (food storage supplies) – Account 6020, Vendor ID #000022709
- Animal Care – Account 6020, Vendor ID #000029262

*Additional Allowable Care and Maintenance Costs Resulting from New Information*

We incorporated the additional materials and supplies costs identified above into our calculations of allowable care and maintenance costs. After adding the allowable materials and supplies costs into the care and maintenance formula, additional allowable care and maintenance costs total \$61,229 for the audit period.

The following table summarized the revised allowable amounts for care and maintenance expenses by fiscal year:

	Previous Allowable Amount			Revised Allowable Amount			
		Other	Total		Other	Total Revised	
Fiscal Year	Dogs/Cats	Animals	Allowable Amount	Dogs/Cats	Animals	Allowable Amount	Audit Adjustment
Care and maintenance:							
1998-99	\$ —	\$ 3,081	\$ 3,081	\$ —	\$ 3,156	\$ 3,156	\$ 75
1999-2000	364,573	6,834	371,407	375,062	7,031	382,093	10,686
2000-01	480,423	7,060	487,483	487,021	7,157	494,178	6,695
2001-02	299,445	7,165	306,610	307,530	7,358	314,888	8,278
2002-03	221,567	5,463	227,030	228,809	5,642	234,451	7,421
2005-06	225,970	14,833	240,803	233,359	15,318	248,677	7,874
2006-07	189,039	17,269	206,308	196,262	17,929	214,191	7,883
2007-08	219,708	18,619	238,327	231,063	19,581	250,644	12,317
Total	\$ 2,000,725	\$ 80,324	\$ 2,081,049	\$ 2,059,106	\$ 83,172	\$ 2,142,278	\$ 61,229

The revised care and maintenance formula calculations of claimed, allowable, and unallowable costs by fiscal year are also presented in Schedule 2—Summary of Care and Maintenance Costs.

#### *Annual Animal Census Data*

The yearly census refers to the total number of days that all animals were housed in the city's shelters. The Animal Services Department was able to provide the actual animal census information from its Chameleon tracking system for FY 2000-01 through FY 2007-08. For the earlier two years, for which Chameleon statistics were not available, we were able to use the average data from animal statistics available for FY 2000-01 and FY 2001-02.

#### *Exclusions*

The only two exclusions noted in this category were the animals that came in Dead on Arrival (DOA) or Missing. We did not count DOA animals as part of the annual census because no costs were incurred to care for them. In addition, we did not count Missing animals as part of the annual census because their holding period was unknown.

#### *Input Errors*

During our analysis of the annual census information, we noted some data input errors relating to dates. Some animal entries showed a negative holding period or extraordinarily long holding periods (e.g., exceeding ten years). Because these input errors were very obvious, we either eliminated these animals from the population or changed the incoming or outgoing dates.

Our review of the Chameleon animal information indicated that the city understated the annual animal census in each fiscal year of the audit period.



The following table summarizes the claimed, allowable, and revised animal census information by fiscal year:

Fiscal Year	Total Claimed	Animal Census Allowable			Total Allowable	Audit Adjustment
		Dogs/Cats	Birds	Other Animals		
Annual animal census:						
1998-99	258,420	—	—	—	476,517	218,097
1999-2000	258,420	—	—	—	476,517	218,097
2000-01	322,295	405,287	21,792	28,009	455,088	132,793
2001-02	272,290	418,756	37,926	41,263	497,945	225,655
2002-03	449,730	407,574	13,821	28,781	450,176	446
2005-06	509,248	415,652	17,307	82,353	515,312	6,064
2006-07	655,576	525,522	15,520	165,449	706,491	50,915
2007-08	799,326	695,980	34,574	86,304	816,858	17,532
Total	3,525,305	2,868,771	140,940	432,159	4,394,904	869,599

#### *Cost Per Animal Per Day*

The actual cost formula requires the eligible annual cost of care to be divided by the yearly census to arrive at an average cost per animal per day. The cost per animal per day is then multiplied by the eligible number of animals and the number of increased holding period days.

We used the audited annual expenditures and the annual animal census information to calculate the allowable cost per animal per day. We concluded that the city overstated the cost per animal per day in each fiscal period, as shown in the table below.

Fiscal Year	Cost Claimed	Cost Allowable	Audit Adjustment
Cost per animal per day:			
1998-99	\$ 13.12	\$ 9.23	\$ (3.89)
1999-2000	16.66	10.37	(6.29)
2000-01	15.17	11.81	(3.36)
2001-02	25.34	9.89	(15.45)
2002-03	13.91	10.11	(3.80)
2005-06	20.59	13.58	(7.01)
2006-07	17.67	12.77	(4.90)
2007-08	16.08	12.43	(2.65)

#### *Eligible Animal Population*

We determined the eligible animal population for dogs and cats and other animals by analyzing the Chameleon database information and taking into account all exclusions per the requirement of the mandated program. The following animals were excluded from the population of eligible animals:

- Dogs and cats and other animals that were owner-surrendered or previously owned (only stray animals were included in the eligible population);
- Dogs, cats, and other animals that were ultimately adopted, transferred, rescued, or redeemed (only those animals with the outcome of “died” or “euthanized” were reviewed);

- Dogs, cats, and other animals that went missing from their kennels, were stolen, or escaped;
- Dogs, cats, and other animals that were DOA;
- Dogs, cats, and other animals that were euthanized as requested by owners or if euthanasia was required / requested (“Dispo Req” or “Euth Req”);
- Dogs, cats, and other animals that were euthanized for humane reasons (usually on day 1);
- Dogs, cats, and other animals that were suffering from a serious illness or severe injury (usually euthanized on day 1 or died on day 1);
- Newborn animals that need maternal care and were impounded without their mothers (usually died or were euthanized within the first few days; the excluded categories included “Unweaned” or “8 weeks unsustainable”);
- Ineligible other animals such as rodents, livestock, or wild animals;
- Ineligible birds, such as pigeons, doves, ducks, chickens, owls, pheasants, mallards, and gamefowls;
- Dogs and cats that died in the shelter’s kennels outside of increased holding period (days 1, 2, 3, and day 7 and beyond), as per the requirements of the mandate. (Local agencies are eligible to receive reimbursement to care for dogs and cats that *died during the increased holding period* [days 4, 5, and 6]);
- “Other” animals that died in the shelters’ kennels on day 7 and beyond (after the increased holding period). (Local agencies are eligible to receive reimbursement to care for other animals that *died during the increased holding period* [days 2, 3 through 6]); and
- Dogs, cats, and other animals that were euthanized during the holding period as per the requirements of the mandate. The agencies are eligible to receive reimbursement to care for dogs and cats and other animals that were *euthanized after the holding period* (day 7 of the holding period and beyond).

Our review of the Chameleon database revealed that the city overstated eligible animal populations in each fiscal period.

The following table summarizes the claimed, allowable, and unallowable animals for the audit period by fiscal year:

Fiscal Year	Animals Claimed			Animals Allowable			Audit Adjustment
	Dogs/ Cats	Other Animals	Total Claimed	Dogs/ Cats	Other Animals	Total Allowable	
Eligible animals:							
1998-99	7,103	105	7,208	—	56	56	(7,152)
1999-2000	17,328	607	17,935	12,056	113	12,169	(5,766)
2000-01	15,278	216	15,494	13,746	101	13,847	(1,647)
2001-02	13,538	209	13,747	10,365	124	10,489	(3,258)
2002-03	10,484	216	10,700	7,544	93	7,637	(3,063)
2005-06	5,930	452	6,382	5,728	188	5,916	(466)
2006-07	5,486	1,402	6,888	5,123	234	5,357	(1,531)
2007-08	6,036	688	6,724	5,735	243	5,978	(746)
Total	81,183	3,895	85,078	60,297	1,152	61,449	(23,629)

#### *Increased Holding Period Days*

The parameters and guidelines identify the number of reimbursable days for dogs and cats to be the difference between three days from the day of capture and four business days from the day after impoundment. For other animals, the parameters and guidelines identify the number of reimbursable days to be four business days from the day after impoundment.

Determining the exact number of reimbursable days is often difficult. Depending on the impound day, each animal will have a different holding period requirement. For example, for a dog impounded at noon on Monday, the “old” law (prior to 1999) requires the city to hold the dog until noon on Thursday (72 hours); the current law requires the city to hold the dog until closing on Friday (which is 4 business days following impoundment). Under the current law, the holding period was increased by 1 day and 5 hours (or 29 hours). However, for the dog impounded at noon on Friday, the “old” law requires the city to hold the dog until noon on Monday (72 hours); and the current law requires the city to hold the dog until closing on Friday (which is 4 business days following impoundment). Under the current law, the holding period was increased by 4 days and 5 hours (or 101 hours).

This calculation takes into consideration that the required holding period does not include either Saturday or Sunday as a business day, which is consistent with the Appellate Court decision dated March 26, 2010, in the case of *Purifoy et al v. Howell*. We also took into consideration the operating schedules of the city’s shelters; some shelters are closed on Mondays. In such cases, we did not count Monday as a business day.

To determine the number of reimbursable days for all of the city’s shelters, we analyzed every possible impound option (e.g., Monday impound, Tuesday impound, Wednesday impound, etc.) and determined the average increased holding period for dogs and cats to be 3 days and the average increased holding period for other “eligible” animals to be 6 days.

The following chart summarizes the formula:

**Care and Maintenance Formula for Dogs and Cats**

$$\begin{array}{ccccc} \text{Cost per animal} & \times & \text{Eligible dogs and cats} & \times & \text{Number of Increased Days} \\ \text{per day} & & \text{(died days 4,5,6)} & & \text{(3 days for dogs and cats)} \\ & & \text{(euthanized days 7 and on)} & & \end{array}$$

**Care and Maintenance Formula for Other Animals**

$$\begin{array}{ccccc} \text{Cost per animal} & \times & \text{Eligible Animals} & \times & \text{Number of Increased Days} \\ \text{per day} & & \text{(died days 2,3,4,5,6)} & & \text{(6 days for other)} \\ & & \text{(euthanized days 7 and on)} & & \end{array}$$

The parameters and guidelines (section IV.B.3–Care and Maintenance for Impounded Stray or Abandoned Dogs and Cats that Die During the Increased Holding Period or Are Ultimately Euthanized) identify the following reimbursable activities:

Beginning July 1, 1999 – Providing care and maintenance during the increased holding period for impounded stray or abandoned dogs and cats that die during the increased holding period or are ultimately euthanized. The increased holding period shall be measured by calculating the difference between three days from the day of capture and four or six business days from the day after impoundment.

The parameters and guidelines (section IV.B.4–Care and Maintenance for Impounded Stray or Abandoned Animals Specified in Food and Agriculture Code Section 31753 that Die During the Increased Holding Period or Are Ultimately Euthanized) also state:

Beginning January 1, 1999 – For providing care and maintenance for . . . stray or abandoned rabbits, guinea pigs, hamsters, pot-bellied pigs, birds, lizards, snakes, turtles, and tortoises legally allowed as personal property that die during the increased holding period or are ultimately euthanized.

Eligible claimants are *not* entitled to reimbursement for the care and maintenance of the following population of dogs and cats and other animals:

- Stray or abandoned dogs, cats, and other animals that are irremediably suffering from a serious illness or severe injury,
- Newborn stray or abandoned dogs, cats, and other animals that need maternal care and have been impounded without their mothers,
- Stray or abandoned dogs, cats, and other animals too severely injured to move or when a veterinarian is not available and it would be more humane to dispose of the animal,
- Owner-relinquished dogs, cats, and other animals, and
- Stray or abandoned dogs, cats, and other animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization.

Eligible claimants may elect one of two methods, actual cost method or time study method, to claim costs for the care and maintenance of impounded stray or abandoned dogs, cats, and other animals that die during the increased holding period or are ultimately euthanized. The city elected to use the actual cost method to claim these costs.

Under the actual cost method, actual reimbursable care and maintenance costs per animal per day are computed for an annual claim period. The computation method is as follows:

1. Determine the total annual cost of care and maintenance for all dogs, cats, and other animals impounded at a facility. Total cost of care and maintenance includes labor, materials, supplies, indirect costs, and contract services.
2. Determine the average daily census of all dogs, cats, and other animals. For purposes of claiming reimbursement under IV.B.3, "average daily census" is defined as the average number of all dogs and cats at a facility housed on any given day, in 365-day period and the average number of all other animals at a facility housed on any given day, in a 365-day period.
3. Multiply the average daily census of dogs, cats, and other animals by 365 = the yearly census of dogs and cats and the yearly census of other animals.
4. Divide the total annual cost of care by the yearly census of dogs and cats = cost per dog and cat per day and yearly census of other animals = cost per other animal per day.
5. Multiply the cost per animal per day, by the number of impounded stay or abandoned dogs, cats, and other animals that die during the increase holding period or are ultimately euthanized by each reimbursable day. The reimbursable day for cats and dogs is the difference between three days from the day of capture, and four or six business days from the day after impoundment.

#### Care and Maintenance Formula

The parameters and guidelines provide for a formula-driven methodology to determine allowable mandated costs for the care and maintenance of dogs and cats and other animals. The use of this method requires claimants to calculate the total amount of eligible costs incurred to provide care and maintenance for the animals housed in its shelter. This total is divided by the annual census of animals housed in the shelter to determine a cost per animal per day. The next element of the formula is adding the number of stray and abandoned animals that died of natural causes during the holding period plus those animals that were euthanized after the required holding period. This total number of animals is then multiplied by the cost per animal per day. The resulting amount represents allowable costs for providing care and maintenance.

The mandate is reimbursing claimants for costs associated with animals that were not relinquished, redeemed, adopted, or released to a nonprofit agency—animals for which the local agency was unable to assess fees to recover such costs.

#### Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

#### City's Response

The city did not respond to this finding. However, the city provided additional supporting documentation subsequent to the issuance of the draft audit report.

#### SCO's Comment

The finding amount decreased by \$61,229—from \$1,029,112 to \$967,883 based on the additional information provided. The recommendation remains unchanged.

**FINDING 4—  
Overstated increased  
holding period costs**

The city claimed \$3,886,965 for increased holding period costs for the audit period. We determined that \$1,841,233 is allowable and \$2,045,732 is unallowable. The unallowable costs occurred because the city overstated allowable hours and the number of allowable positions (\$2,172,695) and understated productive hourly rates (\$126,963).

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1998-99	\$ 337,191	\$ 90,266	\$ (246,925)
1999-2000	754,105	201,949	(552,156)
2000-01	784,231	211,205	(573,026)
2001-02	805,160	213,025	(592,135)
2002-03	115,785	218,413	102,628
2005-06	246,783	295,417	48,634
2006-07	550,209	308,794	(241,415)
2007-08	293,501	302,164	8,663
Total	<u>\$ 3,886,965</u>	<u>\$ 1,841,233</u>	<u>\$ (2,045,732)</u>

*Misstated Allowable Hours and Employee Positions*

The city claimed hours for Animal Care Technicians, Animal Care Technician Supervisors, Animal Control Officers, and Clerk Typists for working on one of the weekend days. The city, however, did not take into account the difference between the regular staffing needs and the increased staffing needs to comply with the requirement of this component. As a result, the city overstated the number of eligible employee positions and did not properly calculate the number of reimbursable hours per each position. This resulted in overstated costs totaling \$2,172,695 during the audit period.

*Hours of Operation*

The city provided documentation identifying the hours of operation for its animal shelters. All shelters in the city operate on the same schedule and stay open to the public six days a week (excluding Mondays), from 8 am until 5 pm. Thus, as per the requirement of the mandate, each shelter makes animals available for owner redemption or adoption on either of the weekend days. We concluded that reimbursement is allowable for the increased and eligible staffing on Saturdays.

*Staffing Requirements*

For agencies using the holding period of four business days after the day of impoundment, we needed to determine the additional costs incurred to have the impounded animals available for owner redemption or adoption. In order to determine the additional staffing requirements, we inquired about the number of employees and classifications of staff members working when the shelter is closed to the public (Mondays) and the staffing needed to comply with the mandate and stay open during the increased hours (Saturdays).

When the shelter is closed to the public, animals must still be cared for and fed. Usually, most of the staff members whose duties include caring for animals would be at the shelters regardless of whether the shelters were open to the public or not. Therefore, as the main duties of these employees are to care and maintain animals, these positions are generally not reimbursable for this cost component.

However, some positions are reimbursable under this component depending on the increased staffing needs on those days when the shelter is open to the public. To demonstrate the increased staffing requirements for Saturdays, the city provided monthly working schedules for each shelter. After reviewing these schedules, we determined that the following additional employees were needed to comply with the mandate requirement and stay open during one weekend day.

- Animal Care Technicians (10 positions, 9 hours each)
- Animal Care Technician Supervisor (1 position, 9 hours)
- Front Counter Clerks (10 positions, 8 hours each)

#### *Allowable Annual Hours*

Starting with FY 1999-2000, we calculated allowable annual hours the same way for every year using the following formula:

$$\text{Allowable weekly hours per classification} \times \text{Number of positions} \times 52 \text{ weeks}$$

The following table summarizes the annual hours per employee classification needed to perform the mandated activities:

<u>Employee Classification</u>	<u>Number of Eligible Employees</u>	<u>Allowable Weekly Hours</u>	<u>Allowable Annual Hours</u>
Animal Care Technicians	10	9	4,680
ACT Supervisor	1	9	468
Front Counter Clerks	10	8	4,160
			<u>9,308</u>

The FY 1998-99 reimbursement period for this cost component began in January 1999. Accordingly, we reduced allowable annual hours by half for this fiscal period.

#### *Understated Productive Hourly Rates*

As identified in Finding 1, the city generally understated employee productive hourly rates. We applied the adjusted rates and determined that allowable costs for this component were understated by \$126,963.

The parameters and guidelines (section IV.B.5—Using the Holding Period of Four Business Days After the Day of Impoundment) state that the following activities are reimbursable beginning January 1, 1999, for impounded animals specified in Food and Agriculture Code section 31753 (“other animals”), and beginning July 1, 1999, for impounded dogs and cats:



- Making the animal available for owner redemption on one weekday evening until at least 7:00 p.m., or one weekend day; or
- For those local agencies with fewer than three full time employees or that are not open during all regular weekday business hours, establishing a procedure to enable the owner to reclaim their animals by appointment at a mutually agreeable time when the agency would otherwise be closed.

#### Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

#### City's Response

The city did not provide a response to this specific finding. However, the city did comment on the audit process and the audit findings in general. See the city's response under "Other Issues."

**FINDING 5—  
Overstated lost and  
found lists costs**

The city claimed \$195,493 for the Lost and Found Lists cost component during the audit period. We determined that \$79,114 is allowable and \$116,379 is unallowable. The costs were unallowable because the city claimed estimated hours in the first four years of the audit period (\$77,428), claimed unsupported Web project development costs (\$44,699), understated allowable hours due to rounding errors in the time study (\$2,651), and understated employee productive hourly rates (\$3,097).

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1998-99	\$ 12,655	\$ 3,852	\$ (8,803)
1999-2000	26,185	8,615	(17,570)
2000-01	30,373	9,008	(21,365)
2001-02	54,530	9,087	(45,443)
2002-03	9,371	9,318	(53)
2005-06	12,237	12,600	363
2006-07	13,016	13,364	348
2007-08	12,206	13,270	1,064
Total salaries and benefits	<u>170,573</u>	<u>79,114</u>	<u>(91,459)</u>
Materials and supplies:			
2001-02	24,920	—	(24,920)
Total	<u>\$ 195,493</u>	<u>\$ 79,114</u>	<u>\$ (116,379)</u>

*Estimated and Unsupported Costs*

The city claimed estimated hours for Clerk Typists for FY 1998-99 through FY 2001-02. The estimated salary and benefit costs totaled \$77,428. Furthermore, the city also claimed unsupported costs for the creation of its Web site for FY 2001-02 totaling \$19,779 for salaries and benefits and \$24,920 for materials and supplies. The city did not provide any documentation to support claimed costs nor document the pro-rated portion of these costs attributed to the mandated activity of Lost and Found Lists.

*Time Study*

Starting with FY 2002-03, the city started claiming hours based on a time study that it conducted for this cost component. The time study recorded the time increments for the Clerk Typists to print out and display the stray sheets and inventory of stray animals for the public to review. The time study results showed that it takes an average of 11.63 minutes each day for Clerk Typists to perform this activity at each of the city's shelters. The city claimed 11 minutes per clerk (one clerk per each shelter) for this component starting in FY 2002-03. Our review of the time study revealed rounding errors in the city's favor. We calculated allowable hours using 11.63 minutes for one Clerk Typists per day at each of the six shelters. We applied the results of the time study for all years in the audit period.

Using the methodology described above, we calculated allowable annual hours totaling 424.50 per fiscal year, as shown in the table below. For FY 1998-99, reimbursement begins in January 1999, so we used half of total hours allowable for this fiscal year.

<u>Employee Classification</u>	<u>Number of Eligible Employees</u>	<u>Allowable Daily Minutes</u>	<u>Allowable Annual Hours</u>
Front Counter Clerks	6	11.63	424.50

The city understated allowable hours from the time study due to the rounding errors. As a result, allowable costs were understated by \$2,651 for the audit period.

#### *Understated Productive Hourly Rates*

As identified in Finding 1, the city generally understated employee productive hourly rates. We applied the adjusted rates and determined that allowable costs for this component were understated by \$3,097.

The parameters and guidelines (section IV.B.7–Lost and Found Lists) identify the following reimbursable activities:

Beginning January 1, 1999 – Providing owners of lost animals and those who find lost animals with all of the following:

- Ability to list the animals they have lost or found on “lost and found” lists maintained by the agency;
- Referrals to animals listed that may be the animals the owner or finders have lost or found;
- The telephone numbers and addresses of other pounds and shelters in the same vicinity;
- Advice as to means of publishing and disseminating information regarding lost animals; and
- The telephone numbers and addresses of volunteer groups that may be of assistance in locating lost animals.

#### Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

#### City’s Response

The city did not provide a response to this specific finding. However, the city did comment on the audit process and the audit findings in general. See the city’s response under “Other Issues.”

**FINDING 6—  
Understated non-medical  
records costs**

The city claimed \$468,667 for the Maintaining Non-Medical Records cost component during the audit period. We determined that \$1,065,219 is allowable and the city underclaimed costs in the net amount of \$596,552. The costs were misstated because the city claimed overstated and unallowable time increments per non-medical record during the first three years of the audit period (\$237,933), understated the number of eligible animal records (\$814,940), overstated hours spent by the Systems Analyst classification performing mandated activities (\$16,163), and understated productive hourly rates (\$35,708).

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1998-99	\$ 47,236	\$ 56,834	\$ 9,598
1999-2000	140,516	127,181	(13,335)
2000-01	126,793	135,995	9,202
2001-02	26,714	131,162	104,448
2002-03	23,921	124,455	100,534
2005-06	30,738	155,122	124,384
2006-07	20,871	156,162	135,291
2007-08	51,878	178,308	126,430
Total	<u>\$ 468,667</u>	<u>\$ 1,065,219</u>	<u>\$ 596,552</u>

*Overstated and Unallowable Costs*

In the first three years of the audit period (FY 1998-99 through FY 2000-01), the city claimed 20 minutes per animal record for Veterinary Assistants to record information relating to the health of animals. However, recording animal health information is not a reimbursable activity and is, therefore, unallowable. The unallowable costs in the first three years of the audit period totaled \$237,933.

*Time Study*

In the latter five years of the audit period (FY 2001-02, FY 2002-03, and FY 2005-06 through FY 2007-08), the city claimed 5 minutes per non-medical animal record for the Animal Care Technicians to input animal intake information based on the results of the time study. The city then applied the 5-minute increments from the time study to the number of records processed for euthanized animals. After reviewing the time study results, we concluded that the 5-minute increments were reasonable and well-supported. We applied the 5-minute increments per non-medical record in all fiscal years of the audit period, including the first three years during which the hours were unallowable.

*Involvement Level of Various Employee Classifications*

The city's time study documented that record-keeping was performed by the Animal Care Technicians. However, during audit fieldwork, the city provided intake animal statistics supporting the involvement level of

Animal Care Technicians and Animal Control Officers with this activity. These intake statistics segregated the intake procedures and record-keeping activities performed by these two employee classifications.

The intake statistics reports documented that about 23% of animals are brought in from the field, and that Animal Control Officers perform the intake record-keeping for this population of animals. The Animal Care Technicians perform intake record-keeping for the remaining 77% of the animal population. We used these statistics in our calculations of allowable costs.

#### *Understated Non-Medical Records*

Allowable animal records for this cost component include any non-medical record that was created for any animal impounded throughout the audit period. We were able to retrieve this information from the Chameleon database by checking the number of animals that came into the city's shelters during each fiscal year. After analyzing the Chameleon data, we concluded that the city understated the number of eligible records in all fiscal years of the audit period. The city understated the records because it claimed only the records for animals that died or were euthanized. However, the mandated program allows reimbursement for maintaining non-medical records for all impounded animals.

We were able to retrieve Chameleon intake information dating back to FY 2000-01. Chameleon statistics were not available for the first two years of the audit period. To determine the eligible number of records for FY 1998-99 and FY 1999-00, we calculated an average number of animal records processed during FY 2000-01 and FY 2001-02. For FY 1998-99, we used half of this average because reimbursement begins in January 1999 for this component.

After calculating the actual number of intake records, we concluded that the city under-claimed the total number of animal records processed by 356,909 during the audit period, resulting in understated allowable costs totaling \$814,940 during the audit period.

The following table summarizes the claimed, allowable, and understated records for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Records Claimed</u>	<u>Records Allowable</u>	<u>Audit Adjustment</u>
Non-Medical Records			
1998-99	7,136	32,447	25,311
1999-2000	17,935	64,893	46,958
2000-01	15,494	66,343	50,849
2001-02	13,747	63,443	49,696
2002-03	11,960	58,717	46,757
2005-06	11,135	54,102	42,967
2006-07	7,127	52,580	45,453
2007-08	7,175	56,093	48,918
Total	<u>91,709</u>	<u>448,618</u>	<u>356,909</u>

*Senior Systems Analyst Time*

For FY 2007-08, the city claimed 25% of the Senior Systems Analyst's total annual productive hours as time spent to maintain the Chameleon database. According to the Systems Analyst, claimed hours were spent on general oversight and maintenance of the animal database. However, claimed hours did not account for the 50% share of the Chameleon software that is used for non-mandated activities. Accordingly, we pro-rated claimed hours by 50%, which resulted in overstated costs totaling \$16,163 for FY 2007-08.

*Understated Productive Hourly Rates*

As stated in Finding 1, the city generally understated employee productive hourly rates. We applied the adjusted rates and determined that allowable costs for this component were understated by \$35,708.

The parameters and guidelines (section IV.B.8—Maintaining Non-Medical Records) identify the following reimbursable activities:

Beginning January 1, 1999 – Maintaining non-medical records on animals that are either taken up, euthanized after the holding period, or impounded. Such records shall include the following:

- The date the animal was taken up, euthanized, or impounded;
- The circumstances under which the animal is taken up, euthanized, or impounded;
- The names of the personnel who took up, euthanized, or impounded the animal; and
- The final disposition of the animal, including the name of the person who euthanized the animal or the name and address of the adopting party.

Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

City's Response

The city did not provide a response to this specific finding. However, the city did comment on the audit process and the audit findings in general. See the city's response under "Other Issues."

**FINDING 7—  
Overstated necessary  
and prompt  
veterinary care costs**

The city claimed \$2,193,011 under the cost component of Necessary and Prompt Veterinary Care during the audit period. We determined that \$365,168 is allowable and \$1,827,843 is unallowable. The costs were unallowable because the city claimed estimated materials and supplies costs (\$488,137), claimed unsupported materials and supplies costs (\$608,849), claimed misstated and unallowable hours (\$732,515), and understated productive hourly rates (\$1,658).

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1998-99	\$ —	\$ 25,409	\$ 25,409
1999-2000	—	56,834	56,834
2000-01	—	67,504	67,504
2001-02	179,750	51,839	(127,911)
2002-03	143,387	38,753	(104,634)
2005-06	262,640	40,823	(221,817)
2006-07	212,421	40,429	(171,992)
2007-08	297,827	43,577	(254,250)
Total salaries and benefits	<u>1,096,025</u>	<u>365,168</u>	<u>(730,857)</u>
Materials and supplies:			
1998-99	50,984	—	(50,984)
1999-2000	129,149	—	(129,149)
2000-01	308,004	—	(308,004)
2001-02	65,114	—	(65,114)
2002-03	83,002	—	(83,002)
2005-06	117,278	—	(117,278)
2006-07	178,953	—	(178,953)
2007-08	164,502	—	(164,502)
Total materials and supplies	<u>1,096,986</u>	<u>—</u>	<u>(1,096,986)</u>
Total	<u>\$ 2,193,011</u>	<u>\$ 365,168</u>	<u>\$ (1,827,843)</u>

*Salary and Benefit Costs*

The city did not claim any labor costs in the first three years of the audit period (FY 1998-99 through FY 2000-01). Starting in FY 2001-02, the city began claiming costs for Veterinarians and Veterinary Technicians to perform various activities. The claimed hours were based on a time study that recorded increments of time to perform various medical procedures. We reviewed the city's initial time study and determined that it was inadequate.

The initial time study focused on recording non-routine medical procedures as opposed to repetitive activities. Non-routine procedures are not appropriate for a time study because they are unique in nature and in the duration of time spent. Furthermore, non-routine medical procedures are reimbursable only for medical services performed during the required holding period for animals that either died during the holding period or were euthanized after the required holding period. Thus, these types of non-recurring expenses would need to be examined on a case-by-case basis to determine eligibility for reimbursement.

Our review also indicated that included in the time study were some emergency treatments, microchip implantation procedures, and euthanasia procedures, all of which are excluded activities under this cost component.

The two repetitive tasks that are appropriate for a time study under this cost component are (1) performing an initial physical examination to determine the animal's baseline health status and classification as adoptable, treatable, or non-rehabilitatable and (2) administering wellness vaccines to treatable or adoptable animals. We advised the city that it should perform a new time study to capture time spent on these two repetitive and eligible procedures.

#### *Allowable Time Study*

During the course of the audit, the city performed a new time study. The new time study included the following activities (usually performed by Veterinary Technicians):

- Performing the initial physical examination;
- Administering of wellness vaccine upon animal's intake (excluding rabies vaccines);
- Administering other routine medications upon animal's intake (flea, tic, etc.); and
- Inputting animal medical statistics into the Chameleon database about animal's baseline health (not a reimbursable activity).

Out of the four activities noted above, the first two are reimbursable under this component as applied to the eligible animal population. The third activity, administering routine medications to eligible animals, is also reimbursable, but would normally be claimed under the Care and Maintenance cost component. Considering the agency's procedure that Veterinary Technicians perform all three activities at the same time, we decided to allow the third activity under this component as well.

However, the fourth activity, input of medical information into Chameleon, is outside the scope of this component. Noting the animals' baseline health and medical information in the Chameleon software is not a reimbursable activity. We worked with representatives of the city's Animal Services Department to segregate the time study results per each individual activity. We were able to calculate a 10-minute time increment per animal that accounted for time spent on the three reimbursable activities noted above. Subsequently, we used the 10-minute increments to calculate allowable costs for this component by applying it to the eligible population of animals per the Chameleon database.

Our analysis revealed that the city misstated salary and benefit costs for this component by \$732,515 during the audit period.



### *Materials and Supplies*

During the audit period, the city claimed estimated materials and supplies costs (\$488,137) and claimed unsupported materials and supplies costs (\$608,849). The estimated costs occurred in the first three years of the audit period (FY 1998-99 through FY 2000-01), when the city estimated that 3% of the operating costs were attributable to the component of Necessary and Prompt Veterinary Care. In the latter five years of the audit period (FY 2001-02, FY 2002-03, and FY 2005-06 through FY 2007-08), the city claimed materials and supplies costs that were not supported, and we were unable to determine what portion of the cost might have been attributed to reimbursable activities.

### *Understated Productive Hourly Rates*

As identified in Finding 1, the city generally understated employee productive hourly rates. We applied the adjusted rates and determined that allowable costs for this component were understated by \$1,658.

The parameters and guidelines (section IV.B.9–Necessary and Prompt Veterinary Care) identify the following reimbursable activities:

Beginning January 1, 1999 – For providing “necessary and prompt veterinary care” for stray and abandoned animals, other than injured cats and dogs given emergency treatment, that die during the holding period or are ultimately euthanized during the holding periods specified in Statutes of 1998, Chapter 752.

“Necessary and prompt veterinary care” means all reasonably necessary medical procedures performed by a veterinarian or someone under the supervision of a veterinarian to make stray or abandoned animals “adoptable.” The following veterinary procedures, if conducted, are eligible for reimbursement:

- An initial physical examination of the animal to determine the animal’s baseline health status and classification as “adoptable,” “treatable,” or “non-rehabilitatable.”
- A wellness vaccine administered to “treatable” or “adoptable” animals.
- Veterinary care to stabilize and or relieve the suffering of a “treatable” animal.
- Veterinary care intended to remedy any applicable disease, injury, or congenital or hereditary condition that adversely affects the health of a “treatable” animal or that is likely to adversely affect the animal’s health in the future, until the animal becomes “adoptable.”

### Population Exclusions

Eligible claimants are *not* entitled to reimbursement for providing “necessary and prompt veterinary care” to the following population of animals:

- Animals that are irremediably suffering from a serious illness or severe injury . . .;
- Newborn animals that need maternal care and have been impounded without their mothers . . .;

- Animals too severely injured to move or where a veterinarian is not available and it would be more humane to dispose of the animal . . . ;
- Owner-relinquished animals; and
- Stray or abandoned animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization.

#### Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

#### City's Response

The city did not directly address this audit finding in its response. However, the city submitted documentation subsequent to the issuance of the draft report, providing expenditure amounts for veterinary materials and supplies. The city submitted summary reports containing year end expenditures by vendor for Account 3190 – Medical Supplies. For the audit period, the expenses submitted totaled \$2,086,819.

#### SCO's Comment

The finding and recommendation remain unchanged.

We examined the detailed spreadsheets containing expenditures by vendor to determine whether any of the submitted costs were allowable costs under the Necessary and Prompt Veterinary Care cost component.

During fieldwork, we discussed with the department's staff the reimbursable criteria for this component. We specifically addressed all of the exclusions and limitations noted in the parameters and guidelines. In order for veterinary materials and supplies to be reimbursable, the department needed to show what specific materials and supplies were expended for the eligible population of animals. Further, the department needed to show that these medical expenditures took place as a result of treatments occurring during the holding period days for those eligible animals.

We concluded that we are unable to consider the medical expenses submitted for reimbursement, because the city did not determine what portion of the costs actually related to the eligible animals and allowable treatments that took place during the required holding period.

**FINDING 8—  
Overstated procuring  
equipment costs**

The city claimed \$78,179 for procuring equipment costs for FY 2002-03. We determined that \$12,932 is allowable and \$65,247 is unallowable. The unallowable costs occurred because the city claimed unsupported costs (\$52,316) and did not pro-rate allowable computer equipment costs proportionate to the share attributed to the mandated activities (\$12,931).

The parameters and guidelines (section IV.B.10–Procuring Equipment) state that:

If the medical, kennel, and computer equipment is utilized in some way not directly related to the mandated program or the population of animals listed in Section IV(B), only the pro rata portion of the activity that is used for purposes of the mandated program is reimbursable.

**Recommendation**

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**City’s Response**

The city did not provide a response to this specific finding. However, the city did comment on the audit process and the audit findings in general. See the city’s response under “Other Issues.”

**FINDING 9—  
Overstated indirect  
costs**

The city claimed \$2,897,874 for indirect costs during the audit period. We determined that \$2,162,775 is allowable and the net amount of \$735,099 is unallowable (overstated by \$1,229,323 and understated by \$494,224). The overstatement of \$1,229,322 occurred as a result of the unallowable salaries identified in audit Findings 1 through 8. The city also understated indirect costs totaling \$494,223 because it understated its indirect cost rates in FY 1998-99, FY 1999-2000, and FY 2000-01.

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Indirect costs:			
1998-99	\$ 108,071	\$ 133,057	\$ 24,986
1999-2000	276,908	299,826	22,918
2000-01	297,289	362,228	64,939
2001-02	701,641	268,017	(433,624)
2002-03	160,758	197,216	36,458
2005-06	479,470	358,986	(120,484)
2006-07	518,942	298,681	(220,261)
2007-08	354,795	244,764	(110,031)
Total	<u>\$ 2,897,874</u>	<u>\$ 2,162,775</u>	<u>\$ (735,099)</u>

*Unallowable Indirect Costs Related to Unallowable Salaries*

As a result of the unallowable salaries identified in Findings 1 through 8, related indirect costs totaling \$1,229,322 are also unallowable.

*Understated Indirect Cost Rates*

The city understated its indirect cost rates in FY 1998-99, FY 1999-2000, and FY 2000-01. The rates were understated because the city used incorrect rates from the annual citywide Cost Allocation Plans (CAP).

The City Controller prepares annual CAPs, which provide details for approved fringe benefit rates and indirect cost rates for each of the city's departments. The rates indicated in each CAP are approved by the U.S. Department of Health and Human Services under the contract with the city's cognizant federal agency, the U.S. Department of Housing and Urban Development. The city uses these approved rates to prepare claims for various programs, grants, and contracts.

As per the CAP instructions, the indirect cost rates consist of two separate rates: the central services rate and the departmental administration and support rate. Both overhead rates should be combined and applied to direct salaries, excluding fringe benefits, and overtime.

However, the Animal Services Department did not combine the two overhead rates in the first three years of the audit period, and thus understated the rates for those fiscal years, as noted in the table:

Category	Fiscal Year		
	1998-99	1999-2000	2000-01
Claimed indirect cost rates	30.82%	37.13%	39.31%
Allowable indirect cost rates:			
Central services rate	56.25%	56.14%	66.61%
Department administration and support rate	30.82%	37.13%	39.31%
Total allowable rate	87.07%	93.27%	105.92%
Audit adjustment	56.25%	56.14%	66.61%

The understated rates resulted in underclaimed indirect costs totaling \$494,223 as noted in the following table:

Category	Fiscal Year			Total
	1998-99	1999-2000	2000-01	
Rate claimed	30.82%	37.13%	39.31%	
Rate allowable	87.07%	93.27%	105.92%	
Difference	56.25%	56.14%	66.61%	
Allowable salaries	× \$ 152,816	× \$ 321,460	× \$ 341,982	
Audit adjustment	\$ 85,959	\$ 180,469	\$ 227,795	\$ 494,223

The parameters and guidelines (section V.B.—Claim Preparation and Submission, Indirect Cost Rates) state that compensation for indirect costs is eligible for reimbursement using the procedure provided in the Office of Management and Budget Circular A-87. Claimants have the option of using 10% of direct labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal if the indirect cost rate exceeds 10%.

### Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

### City's Response

The city did not provide a response to this specific finding. However, the city did comment on the audit process and the audit findings in general. See the city's response under "Other Issues."

**OTHER ISSUES**

In its response dated March 29, 2011, the city commented on the audit process and the audit findings in general.

**ISSUE 1—  
Proposition F and  
construction of new  
facilities**

The city did not claim any costs during the audit period under the Acquisition of Additional Space and/or Construction of New Facilities cost component. During audit fieldwork, the city inquired about the eligibility of costs it incurred for the construction and renovation of animal shelters under the mandated program.

During the audit period, the city constructed new animal shelters and underwent renovation work on existing animal shelters. These improvements have been an ongoing project for the City of Los Angeles that involved a ballot measure in the November 2000 general election. In that general election, the voters passed Proposition F, which allowed the city to issue bonds for the purposes of constructing new animal shelter facilities and fire stations.

The city provided background information on this project for our review. After reviewing the information provided, we determined that the terms of Proposition F required that the city's taxpayers would fund the construction projects through additional levies made to their property taxes. The city's taxpayers have been and are still currently assessed property taxes in amounts specifically for the purpose of retiring the Proposition F bonds. Therefore, the city's taxpayers are funding both the entire bond principal and interest amounts. Accordingly, we determined that this non-discretionary revenue source was used to build the city's animal shelters and none of the city's discretionary general fund moneys were involved.

While the city performed the required analysis to determine that additional shelter space was needed to provide additional capacity in order to comply with the provisions of the Hayden Bill, restricted resources funded the construction costs for the additional capacity, not the city's general fund. Therefore, the city did not incur any increased costs to construct/remodel its animal shelters under Government Code section 17514.

**City's Response**

First, there should not seem to be any dispute whether there was a cost mandated by the State. The costs are clearly identified as reimbursable costs in the Controller's claiming instructions for the Hayden Bill which meets all the requirements of Section 17514 above.

The Controller's issue seems to be, are these local revenues or "proceeds of taxes." The state has the right to preclude the City from being reimbursed for state, federal or grant funds, but not for local revenues which are proceeds of taxes.

On January 31, 2001, the Los Angeles City Council adopted a resolution providing for the issuance and sale of the City of Los Angeles General Obligation Bonds authorized by the voters by Proposition F, in an aggregate principal amount not to exceed \$201.3 million for a variety of local projects and services. The Council identified up to \$36.5 million for animal shelter facilities. These are clearly local revenues and to the extent the funds are used to pay for state mandate programs, there should be reimbursed by the state.

A similar issue was contested in *Redevelopment Agency v. Commission on State Mandates* (1997) 55 Cal.App.4th 976. The court set forth the following analysis:

The California Supreme Court's summary of the history and substance of the law applicable to state mandates, commented: "Through adoption of Proposition 13 in 1978, the voters added article XIII A to the California Constitution, which 'imposes a limit on the power of state and local governments to adopt and levy taxes. [Citation.]' [Citation.] The next year, the voters added article XIII B to the Constitution, which 'impose[s] a complementary limit on the rate of growth in governmental spending.' [Citation.] These two constitutional articles 'work in tandem, together restricting California governments' power both to levy and to spend for public purposes.' [Citation.] Their goals are 'to protect residents from excessive taxation and government spending. [Citation.]' [Citation.]" (*County of San Diego v. State of California*, supra, 15 Cal.4th at pp. 80-81.)

\* \* \*

In *County of San Diego v. State of California*, supra, 15 Cal.4th at page 81, the Supreme Court explained that section 6 represents recognition that together articles XIII A and XIII B severely restrict the taxing and spending powers of local agencies. The purpose of the section is to preclude the state from shifting financial responsibility for governmental functions to local agencies, which are ill equipped to undertake increased financial responsibilities because they are subject to taxing and spending limitations under articles XIII A and XIII B. (*County of San Diego v. State of California*, supra, at p. 81.)

\* \* \*

In *County of Placer v. Corin* (1980) 113 Cal.App.3d 443, 451 [170 Cal.Rptr. 232], the court defined "proceeds of taxes" in this way: "Under article XIII B, with the exception of state subventions, the items that make up the scope of 'proceeds of taxes' concern charges levied to raise general revenues for the local entity. 'Proceeds of taxes,' in addition to 'all tax revenues' includes 'proceeds ... from ... regulatory licenses, user charges, and user fees [only] to the extent that such proceeds exceed the costs reasonably borne by such entity in providing the regulation, product or service....' (§ 8, subd. (c).) (Italics added.) Such 'excess' regulatory or user fees are but taxes for the raising of general revenue for the entity. [Citations.] Moreover, to the extent that an assessment results in revenue above the cost of the improvement or is of general public benefit, it is no longer a special assessment but a tax. [Citation.] We conclude 'proceeds of taxes' generally contemplates only those impositions which raise general tax revenues for the entity." (Italics added.) (Id. at 980- 984.)

In summary, the courts have held, and the Commission will follow suit in holding, that Proposition F funds are clearly proceeds of taxes and local revenue and to the extent they were used to pay for state mandated costs associated with the increased cost of building animal shelters due to the Hayden bill, should be reimbursed by the State.

### SCO's Comment

The draft report contains our response to the city's request to consider reimbursement for animal shelter construction costs under the section entitled "Other Issues." In our response, we stated that such costs were not reimbursable because the construction costs incurred were funded entirely by the city's taxpayers via property tax assessments. However, the city attached to its draft report response a legal argument suggesting that such costs should be reimbursable under the mandated program. We submitted the city's legal arguments to SCO legal counsel for follow-up. Based upon our legal counsel's guidance, we will revisit this issue if necessary.

**ISSUE 2—  
Audit findings and the  
audit process**

The city provided three separate documents (Attachment) in response to the draft audit report. These documents consisted of:

- Letter to State Controller John Chiang from Brenda Barnette, General Manager of Animal Control Services
- Bullet Point List containing various comments related to the audit, and
- Summary of Department's Response to Finding 8 – Prop F costs

Our comments related to the city's response concerning Proposition F is noted above. We will address our comments to the first two responses provided by the city below.

**Letter to Controller John Chiang**

The letter from Animal Services Department General Manager Brenda Barnette contains a number of allegations about the SCO audit process that misrepresent what occurred during the course of audit fieldwork. Ms. Barnette was not directly involved in the audit process. We documented the actual sequence of events that transpired during the audit process, as described below. Our comments relate to the main points that appear in Ms. Barnette's letter to the Controller.

***“Unreasonable time constraints imposed . . . on the Department.”***City's Response

Due to the unreasonable time constraints imposed by the State on the Department, substantial and delinquent demand made by the State that the City provide detailed documentation for audit periods as long as 12 years, and strong likelihood that the [sic] with sufficient and fair notice to the City the actual reimbursement to the City would be closer to the actual amounts billed, the Department of Animals Services recommends that the City of Los Angeles direct the State of California to immediately and fully reimburse all amounts claimed by the Department of Animal Services that have not been paid by the State.

SCO's Comment

The audit began with an entrance conference held on April 28, 2009. In November 2009, further work on the audit was temporarily discontinued when the Audit Manager overseeing the project transferred to another unit within the SCO. Subsequently, the audit was transferred to another Audit Manager and Auditor-In-Charge (AIC) for completion.

This new audit group met with Animal Services Department representatives and their mandated cost consultant on July 19, 2010, to resume fieldwork for the audit. At that time, the city was given notice that a final audit report would be issued no later than April 2011, nine months later. We provided department representatives with a status report documenting where things stood with the audit as of that date. During the next four days, the SCO Audit Manager visited four of the city's animal shelters to gather information on how the city operated its animal shelters, while the AIC worked with department employees to gather information in support of claimed costs.



Subsequent to the July 19, 2010 meeting, the city's mandated cost consultant was no longer involved in the audit process (i.e., did not participate in any audit discussions with department representatives nor had any contact with SCO auditors with questions or concerns about the audit as it progressed).

At the end of this first week (July 22, 2010), we conducted another status meeting with department representatives to address some of the issues we noted and request documents to support training costs, computer software costs, care and maintenance costs (labor as well as materials and supplies), increased holding period costs, lost-and-found lists costs, non-medical records, and necessary and prompt veterinary care costs. We then discussed each cost component in detail with the department staff and discussed which types of expenditures would be reimbursable. We addressed the criteria for reimbursement found in the program's parameters and guidelines, and possible audit findings.

We also discussed in detail the support needed for care and maintenance expenditures and even identified the city's expenditure accounts that probably contained the information (expenditure account 6020 – Operating Expenses, and account 4580 – Animal Food Expenses). When we asked about actual expenditure information, department representatives had no knowledge of any actual expenditure information that was available. We were informed that the department only worked with budgeted information. We suggested that the department contact the City Controller's Office for actual cost data.

Over the weeks that followed, we maintained constant contact with department representatives via telephone and e-mail. The AIC revisited the department during the week of October 19, 2010, for a second week of fieldwork. At that time, we provided department representatives with a detailed write-up of our preliminary findings to date. This handout also provided a list of documentation still needed to complete calculations for training, computer equipment and software license renewal, care and maintenance, lost-and-found lists, and veterinary care.

At the conclusion of this additional week of fieldwork, we conducted another status meeting with department representatives addressing the progress made that week. We provided the department another detailed handout containing information relating to the lack of documentation for some of the cost components. We again addressed the missing documents related to the care and maintenance expenses we previously requested. The department staff stated they were still working on retrieving expenditure amounts from accounts 6020 – Operating Supplies, and 4580 – Animal Food. The department stated it was still in the process of determining the proration of time attributed to the function of care and maintenance by some key employee classifications. At this point, the city still was not able to provide any supporting documentation for part of lost-and-found lists costs, all veterinary care costs, and part of the computer software costs.

On October 28, 2010, per the department's request, we sent a document containing details about our analysis of the city's Chameleon database information. We addressed that our calculations were based on the raw animal data provided by the department from its system. We provided details of our calculations for the annual census of animals and the number of eligible animals per each fiscal year in the audit period. We also provided a list of the excluded animals that we noted during our review of the animal data. To date, the city has not provided any objections to our analysis of its Chameleon data.

On November 23, 2010, we made another attempt to request documentation that had not yet been provided. This included the expenditure amounts for care and maintenance costs, veterinary expenditures relating to reimbursable activities, and the proration analysis for the Chameleon software that relates to the mandated activities. All of these items were originally requested in July 2010.

On January 12, 2011, we held an exit conference with representatives of the Animal Services Department and addressed each audit finding in detail. The city's mandated cost consultant did not attend this meeting. We discussed how we calculated the allowable costs and noted the documentation that was still needed, primarily the actual cost information supporting materials and supplies expenditures for care and maintenance. At the exit conference, we advised department representatives again that we would be issuing a final report no later than early April. We also explained that even though a final report was issued, we would still consider additional information that the city provided and adjust the final audit report as appropriate.

A short time after the exit meeting, we were advised that Linda Barth, our main contact person for the audit, and the Department's Assistant General Manager, had left the department. The department did not provide any more documentation to us after the exit meeting, up to the issuance of the draft report on March 10, 2011.

As noted above, we have worked extensively with city representatives to determine allowable costs to the maximum extent possible.

***"The claims filed by the City were submitted timely and were properly documented."***

#### City's Response

Full reimbursement is proper because the claims filed by the City were submitted timely (except as noted), and were properly documented according to all of the State's guidelines and rules in place at the time each request for reimbursement was submitted.

#### SCO's Comment

The city did not provide supporting documentation for all of its costs claimed, consistent with the rules in place when the claims were filed. The documentation requirements for the city's mandated cost claims are contained within the parameters and guidelines adopted by the CSM on February 28, 2002, and amended on January 26, 2006. The parameters

and guidelines require that all costs claimed be traceable to source documents that show evidence of the validity of such costs and their relationship to this mandate.

The city is responsible for maintaining documentation for the period the claims were subject to audit. However, the department representatives indicated to us that some of the supporting documentation has been destroyed, specifically invoices supporting materials and supplies costs related to animal care and maintenance activities.

***“The audit [must] be reopened to [reconsider] Prop F funds.”***

#### City’s Response

If the audit must be closed to meet a statutory deadline, we additionally request that the audit be reopened to allow adequate time to consider acceptance of offset allowance for Prop F funds expended on facility construction and other expenditures to comply with the Hayden Bill.

#### SCO’s Comment

As noted previously in our comments above, we advised department representatives that we would welcome any additional documentation subsequent to the issuance of the final audit report that supports additional allowable costs. We also advised that we would adjust the audit results as appropriate and reissue the audit report.

In light of the city’s legal argument related to Prop F funds, we have requested further guidance from our legal counsel. We will adjust the audit results as appropriate based on the guidance that we receive concerning this issue.

***“The State’s audit [was] untimely, lack[ed] proper notification, and [is] contrary to the general purposes of good government.”***

#### City’s Response

For all the reasons stated in the attached, the Department recommends that the city reject the State’s audit as untimely, lacking proper notification, and contrary to the general purposes of good government, and as a result, reject the audit findings.

#### SCO’s Comment

Our audit was conducted in accordance with *Generally Accepted Auditing Standards*. These standards require that we obtain sufficient and relevant evidence that adequately supports the audit findings and conclusions. We did this. As noted above, the audit was performed within the statutory time period and the city was provided proper notification of audit issues. As noted in our audit report, the city filed its mandate claims with significant errors and omissions.

***“Audit process . . . should support the good faith and honest efforts of local agencies to comply with the mandate.”***

#### City’s Response

Rather than reducing the burden on local animal care and control agencies of implementing a valuable State-mandated law, the Hayden Bill, the entire audit process by the State Controller’s Office is resulting in numerous large financial penalties to local jurisdictions for following the rules of the State and, therefore, for supporting the mandates of the Hayden Bill in good faith, and for reporting expenses honestly. The State Mandates reimbursement process, including the audit, should accomplish just the opposite, that is, it should support the good faith and honest efforts of local agencies to comply with the mandate.

#### SCO’s Comment

Our audit determined whether costs claimed represent increased costs resulting from the mandated program. The city is not entitled to mandated reimbursement for costs not allowable under the parameters and guidelines.

A city’s good faith and honest effort is not relevant in determining costs reimbursable under the mandate.

#### **Bullet Point List of Comments Related to the Audit**

The city provided a list of 31 bullet points related to our audit of its claims filed under the Animal Adoption Program for the audit period. Many of these bullet points contain comments that are unrelated to the audit findings, but rather are comments related to the audit process. Some of the city’s comments were already addressed in our comments related to the letter sent to the Controller by General Manager Barnette. Some of the bullet points have nothing to do with the audit findings; therefore we did not respond to them. The city’s bullet points are not numbered. Our responses below follow the same general headings used by the city.

#### ***Deadline***

#### City’s Response

- The State Controller’s Office (State) extended the deadline for providing the Department’s response to the by two days to allow submission of additional material when the Department has requested 30 days. The State’s refusal to allow the time requested by the Department is based on the State’s April 6, 2011 deadline to file the audit in order to stay within the two-year statute of limitations that an audit must be completed within two years of initiation.
- The State’s refusal to allow additional time requested by the Department as allowed in the guidelines is attributable to the State’s delay, not that of the Department. The Department was initially contacted by the State Controller’s Office almost two years ago to schedule the audit. The entrance conference was held and for seven months the State auditors met with Department staff and documents were requested and provided. The Department provided over 200 hours to the audit. In November 2009, the State discontinued contact with the Department. In about June 2010 the Department was contacted by the State again, a new State auditor was assigned. A second entrance conference was held and the State periodically contacted the Department to request information. The

Department provided at least 250 hours in support of this audit. Over 450 hours has been allocated by the Department to support the continuous audit process mostly because of the continual demand of the State auditors for exact detailed information of expenditures including vendor, year, and detailed description of each line item expenditure included in the request for reimbursement.

- The Department has acted in good faith to comply with all audit requests. In a few minor cases, the State auditor agreed to accept some samples of invoices instead of full and complete detailed verification.
- The State issued the draft audit in March, 2011. As of today, the State auditor is still determining methods to allocate various costs among what the State determines to be eligible and ineligible costs.

### SCO's Comment

We advised Animal Services Department representatives in July 2010 that actual cost information was needed to support materials and supplies costs for care and maintenance. We also informed the city that it would have 15 days to respond to the draft report findings and that we would issue a final audit report no later than April 2011. The city did not respond to our e-mails and telephone calls and did not take an active role in supporting these allowable costs until after the issuance of the draft audit report on March 10, 2011. All of the additional information provided by the city should have been available at the beginning of the audit in April 2009.

We also advised city representatives that even after we issued a final report, the audit findings could be updated and a revised report would be issued based upon new information that became available.

The SCO has devoted significant hours of employee time to this project, so there is a considerable amount of involvement by both parties. Contrary to the city's comments, we are not still determining methods to allocate costs for our audit findings. Instead, we were waiting for the city to supply the information that we requested long ago so that we could put it into the actual cost formula to determine allowable care and maintenance costs. We reviewed the additional documentation the city provided after the issuance of the draft report. As a result, allowable costs increased by \$61,229.

### ***Additional Information Submitted or Eligible***

#### City's Response

- The Department is providing additional detailed information to the State auditors as part of its response to the draft audit in the format and level of detail acceptable to the State auditors covering expenditures for medical supplies, cleaning supplies, animal food, staff training, and Prop F costs.
- Information for just the medical supplies, cleaning supplies, and animal food in a linked spreadsheet contains 4.5 million bits of information. These three accounts cover categories of expenditures that are essential for maintenance of animals. Additional information could be provided for other qualifying expenditures in other accounts, such as Account 4460, Private Vet Care, but there are not sufficient time or staff resources to continue to provide millions of items of information going back 12 years

for yet-to-be determined eligibility criteria. Some spay/neuter surgeries for adopted animals are required by the Hayden Bill. Also, details for purchases of eligible cleaning and maintenance supplies from accounts other than Account 6020 have not been calculated due to lack of time and staff resources.

- The Department has requested that the State consider reimbursement for medical supplies. (Account 3190) The State auditors had determined these costs were not eligible, but per our request, agreed to consider them. The State Controller has not yet developed a method to allocate these costs among their determination of what are eligible and ineligible costs. Today the Department is submitting detailed statements of expenditures by year and by line item for medical supplies for the audit period. Stray animals taken to the shelter have unknown medical conditions until they are given a check up and examined by a veterinarian. Animals are given two vaccinations, and medication for deworming and flea control. This treatment is standard. If the animal is ill, additional treatment or medications could include IV fluid, splints, X-rays, or other treatment. The State auditors have yet to develop a formula for allocation of these costs.
- The State auditor has agreed that cleaning and other supplies (Account 6020) would be considered if expenses are determined to be eligible and if the Department is able to provide detailed records of expenditure by vendor and by invoice line item for all years audited. The Department was able to verify the largest vendors. These records are being submitted to the State Controller today.
- The State auditor has agreed that animal food (Account 4580) would be considered if the Department is able to provide detailed records of expenditure by vendor and by invoice line item for all years audited. These records are being submitted today.
- The State auditors rejected Department costs incurred in 2000 to provide initial training of staff for use of a new central database system called Chameleon purchased by the Department to comply with the requirements of the Hayden Bill. The Department was required by the State auditors to provide a list of all employees in the Department in the year 2000 who received the training in order to be reimbursed for it – a 10 years after the training was provided. No prior request to maintain these employee records was provided to the City. The Department was able to retrieve the records but only after considerable expense and time.

#### SCO's Comment

We understand the eligible and ineligible activities under this mandated program. We communicated this information to Animal Services Department personnel multiple times.

During the audit process, Animal Services Department representatives had a difficult time obtaining actual cost information from the city's accounting system. As an alternative, we suggested that they prepare a list of costs expended by vendor. We noted that if the city could provide sample invoices from these vendors, we could verify that the costs incurred for these vendors were for care and maintenance activities. The city could then prepare cumulative reports of expenditures for these vendors, which we would in turn accept for the entire audit period, rather than requiring invoices or other supporting documents. This is what department representatives have now provided. Based on the additional supporting documentation provided, we revised the audit finding amount for Finding 3—Unallowable Care and Maintenance costs, as appropriate.

The city states that “The State auditors rejected Department costs incurred in 2000 to provide initial training of staff for use of a new central database system called Chameleon purchased by the Department to comply with the requirements of the Hayden Bill.” However, this statement is incorrect. In the draft audit report, allowable training costs for FY 1999-2000 totaled \$3,897. This represented costs for training 51 new employees identified by the department, although no support was provided other than a training agenda being used currently within the city’s animal shelters for newly hired staff. Subsequent to the issuance of the draft report, the city requested that we consider allowing 2-3 hours to train all 282 employees on payroll within the Animal Services Department. However, the city has no documentation available to support that any of these employees actually received any training concerning the requirements of the Hayden Bill.

### ***Response to Audit Process and Draft Audit***

#### **City’s Response**

- Claims in the early years of the Hayden mandate (1999-2002) were built on averages and estimates before the publication of the current guidelines. According to the current guidelines as interpreted by the State auditor, the City’s claims were uniformly overstated as were claims by virtually all local agencies. The State Controller’s Office has indicated that the State audits of local animal care agencies typically reduce the amount reimbursed to about 50% of the amount originally claimed. For example: Contra Costa County billed the State \$11,457,157 for Hayden Bill expenses. The State allowed \$5,521,096 of the amount submitted and did not allow \$5,930,661. Disallowed costs exceeded allowed costs for seven of the nine local jurisdictions audited by the State Controller’s Office where audits are posted on their web site.
- All claims were filed through a third party consultant, Maximus, who provided guidance in the formulas and claim amounts. Maximus gathered information and used templates and formulas set up based on the 2002 guidelines for the periods containing most of the questioned costs.
- A court of appeals decision in May 2010 regarding the definition of “business-day” leaves both Saturday and Sunday as non-business days for purposes of calculating the hold days. The auditors have been advised by state legal counsel to apply this standard back to 1999. This has an unknown effect on the reimbursement. Our number of eligible animals decreases if we euthanized before newly defined four-day period. This is more likely a problem in the earlier years when shelter capacity was small. On the other hand, the average-holding-days calculation increases because typically we would have to hold animals longer if Saturday, Sunday, and Monday do not count as hold days. This issue needs significant further research and discussion for the audit and for the future when Hayden is no longer suspended.
- The State is in arrears to the City for a little more than \$5 million in past claims not yet reimbursed. After further adjustment and submissions expected, the amount the auditors find to be overstated is just about \$5 million.
- Hourly rates throughout the audit period are actually higher than the City’s claim. The City used Wages and Counts averages, while auditing actual payrolls gave a slightly increased hourly rate for all classifications.
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- According to the State auditor, the City's claims included overstated medical costs. Hayden only reimburses for routine wellness checks for incoming animals, not special care, not rabies vaccination, and not emergency care, because the latter was already required of shelters by state law. The City had claimed nearly all medical supplies and a high level of medical staff. For the audit, we performed a time study to determine the actual average wellness exam time.

#### SCO's Comment

The first bullet point in this section refers to audits of other local agencies that the SCO has performed under the Animal Adoption Program. The purpose of this comment is unclear, since audits of other local agency claims have nothing to do with SCO's audit of claims filed by the City of Los Angeles.

The response also refers to the city's claims filed for FY 1999-2000 through FY 2001-02 and makes the statement that the claims were overstated because they were based on estimates. This statement is inconsistent with the specifics documented in the draft audit report. None of the unallowable costs for this time frame were based solely on the use of estimates. The city even notes a few bullet points later that we used employee productive hourly rates that were higher than the estimated rates used in the city's claims.

Most of the unallowable costs were for the cost component of Holding Period. For this cost component, the city's claims included costs for employee classifications that are already reimbursable under other cost components of the mandated program, as well as certain other employee classifications that performed non-mandated activities and were not



reimbursable under the mandated program just because they were working on Saturday. Another significant area of unallowable costs occurred for the Care and Maintenance of Dogs and Cats cost component. For this cost component, costs were unallowable primarily because animal census figures were understated, thereby inflating the cost per animal per day.

The city's comments point out that the audit adjustment is about the same amount that is currently owed to the city for its filed claims. This comment infers that the SCO audit process included an agenda to reduce the State's liability to zero. This comment is invalid as we increased allowable costs for the cost component of Non-Medical Records by 227% over the amount claimed by the city during the audit period.

The city also had concerns about the proration of employee classifications performing care and maintenance activities. We don't understand the comment suggesting that our analysis was narrowly defined. Instead, our proration was based on discussions held with Animal Services Department management regarding the percentage of time spent on these activities by various employee classifications. We noted the calculations in the audit report. The city is welcome to provide a more comprehensive analysis for reconsideration if the information that they already agreed was correct is actually incorrect.

We concur that the animal census figures used by the city in its claims are misstated. However, the city's statement that there was a lack of guidelines for reimbursement is incorrect. The specifics of animal census data required for reimbursement has always existed within the language of the applicable cost components within the parameters and guidelines as adopted by the CSM. The city's statement that they have not been able to verify the animal census calculations is incorrect. We conferred with the department's Senior Systems Analyst when we obtained and analyzed animal census data from the city's Chameleon system database. We explained our analysis of the animal data, including which animals were excluded and why. We were told that the animal census numbers that we were using to determine allowable costs was correct. The city is welcome to provide a more comprehensive analysis for reconsideration if the information that they already agreed was correct is actually incorrect.

The city states:

Hayden only reimburses for routine wellness checks for incoming animals, not special care, not rabies vaccination, and not emergency care, because the latter was already required of shelters by state law. The City had claimed nearly all medical supplies and a high level of medical staff. . . .

This statement is incorrect. The parameters and guidelines (Section IV.B.9–Necessary and Prompt Veterinary Care) identify the following reimbursable activities:

The following veterinary procedures, if conducted, are eligible for reimbursement:

- An initial physical examination of the animal to determine the animal's baseline health status and classification as "adoptable," "treatable," or "re-habilitatable."

- A wellness vaccine administered to “treatable” or “adoptable” animals.
- Veterinary care to stabilize and/or relieve the suffering of a “treatable” animal.
- Veterinary care intended to remedy any applicable disease, injury, or congenital or hereditary condition that adversely affects the health of a “treatable” animal or that is likely to adversely affect the animal’s health in the future, until the animal becomes “adoptable.”

The language under this cost component goes on to note animal population exclusions and veterinary care exclusions. The requirements also state that reimbursement is limited to veterinary procedures performed during the holding period and is only applicable to animals that died during the holding period plus those that were euthanized after the required holding period. The city provided additional documentation for medical costs incurred within expenditure account 3190, Medical Supplies. However, reimbursable costs are co-mingled with non-reimbursable costs in the documentation provided. Therefore, we cannot make a determination at this time of the extent to which the city incurred allowable costs under the mandated program.

The city conducted a time study supporting the amount of time spent to perform the first two activities cited in the parameters and guidelines. We requested that the city also provide information relating to costs incurred for the wellness vaccines administered. While the city has supplied materials and supplies costs incurred for medical supplies in total, the city has not yet provided specific information relating to vaccine costs. The second two bullet points describe activities that are not suitable for a time study because they are not repetitive activities. The costs for salaries and benefits, and materials and supplies for these procedures must be supported by actual cost information that also notes that the procedures were performed during the required holding period. The city did not maintain or provide this kind of detailed information for the procedures performed by its medical staff.

### ***Reimbursement and Audit Procedures***

#### **City’s Response**

- The Department was not given notice at beginning of audit period and not given notice at beginning of audit periods of requirements for methods to follow or records to maintain.
- Other minor areas in which follow up will result in slight increases in the reimbursement calculations: Start-up training information has been retrieved by the Department’s systems staff and verified by the payroll section and was provided to the auditor.
- The City questions the Controller’s retroactive application of the Purifoy decision that Saturday is not a business day, and of the description of the scope of work reasonably required to be performed in accordance with the mandate on a Saturday. The City’s believes retroactive application of the Purifoy case is improper. The Commission on State Mandates was silent as to the definition of business day. The court held that although the Hayden Bill requires animal shelters to hold animals longer or be open for business on a weekday evening or Saturday, Saturday is not a business day for the purposes of calculating how long to hold an animal

before it can be released for adoption or disposal. The decision, published on March 26, 2010, is clearly applicable to all future claims. Applying the rule retroactively, as the State has done, is unfair and tends to inhibit or defeat the purpose of the Hayden Bill of extending the holding period so that animals are treated humanely (redeemed or adopted).

- The City followed all guidelines provided by the State and available at the time each request for reimbursement was filed.
- The State waited for as long as 12 years after the close of an audit period to conduct an audit of the claimed expenses incurred during that audit period, then requested a level of detailed proof (original document as proof of each line item expenditure, including name of vendor, quantity, and description of each item purchased) not previously requested or required. Many vendors have destroyed the detailed information (invoices) as the time exceeds any Statute of Limitations. The City General Services Department destroyed copies of invoices because these times exceeded the required records retention period. Requiring the City to guess in what future distant period the State may decide to audit records in any given year and be forced to retain all detailed expenditure records is a burden that is inefficient and unnecessary.
- Initially, the State accepted budgeted expenditures as sufficient proof of expenditure. However, in this audit, the State accepted only detailed proof of actual expenditures and rejected budgeted amounts. This surprise change in documentation requirements is burdensome.
- The State reimbursement process is inefficient. For example, due to the lack of prior notice as to the specific levels and form of proof required, lack of adequate prior guidelines, and delay in audit, the Department was required to allocate well over 450 hours of staff time to respond to this audit - at a time when both the State and City are undergoing significant staffing reductions and furloughs. Administration of animal care and control services depends on efficiency. Inefficiency of any type leads to fewer adoptions, less revenue, less policing, and more euthanasia. This is contrary to the intent of the Hayden Bill.
- The State process of sending the notices of the entrance conferences and exit conferences to the City of Los Angeles Department of Animal Services only, and the draft final audit to the City Controller only, and copying the Department is confusing.

#### SCO's Comment

The city notes its disagreement with our retroactive application of the Appellate Court decision in the case of *Purifoy et al. v. Howell*. In that case, Saturday was determined NOT to be a business day for the purposes of determining the required holding period for dogs. For the purposes of our audit, this affected the allowable cost calculations for unallowable care and maintenance costs (Finding 3), and misstated necessary and prompt veterinary care costs (Finding 7). We contend that the court decision defines the legal definition of a business day for the required holding period as of the date that the statute was enacted in 1998. The decision published in the *Purifoy vs. Howell* court case did not change the verbiage in the parameters and guidelines nor did the definition of a business day change when the court case was published on March 26, 2010. The holding period requirement per the Hayden Bill has always read "four or six 'business days' after the day of impoundment." We acknowledge that the court's decision did not take into consideration the effect that this decision would have on mandated cost claims filed by local agencies.

The city's statement that they were not given notice at the beginning of the audit period nor given notice of methods to follow or records to maintain are both incorrect. We sent a letter dated April 7, 2009, to Laura Chick, City Controller, documenting the beginning of our audit of the city's mandated cost claims for FY 1998-99 through FY 2007-08 (excluding FY 2003-04 and FY 2004-05). A copy of this letter was also sent to Edward Boks, General Manager of the city's Animal Services Department.

The requirements of methods to follow in order to compute reimbursement under the Animal Adoption Program have always been contained within the cost components of the parameters and guidelines. Parameters and guidelines section VI requires the city to maintain the supporting documentation, as no funds were appropriated for the mandated program.

However, the city goes on to state:

The State waited for as long as 12 years after the close of an audit period to conduct an audit of the claimed expenses incurred during that audit period, then requested a level of detailed proof (original document as proof of each line item expenditure, including name of vendor, quantity, and description of each item purchased) not previously requested or required. Many vendors have destroyed the detailed information (invoices) as the time exceeds any Statute of Limitations. The City General Services Department destroyed copies of invoices because these times exceeded the required records retention period. Requiring the City to guess in what future distant period the State may decide to audit records in any given year and be forced to retain all detailed expenditure records is a burden that is inefficient and unnecessary.

The city overstates the amount of time that has elapsed since their initial claims were filed. The city's Animal Adoption Program claims for FY 1998-99, FY 1999-2000, and FY 2000-01 were all filed on September 10, 2002. We initiated an audit of these claims six and one-half years after they were filed. We had statutory authority under Government Code section 17558.5 to audit these claims, as no moneys were appropriated.

We are uncertain why the city would expect its vendors to maintain supporting documentation for its mandated cost claims. The city is responsible for maintaining relevant supporting documentation. The city's statement that it would need to guess when the SCO would actually conduct an audit is meaningless in light of the requirements stated in section VI of the parameters and guidelines of the mandated program, as described above. These requirements were adopted by the CSM, not the SCO. It appears that the city's mandated cost consultant failed to clarify this information with city representatives. The city is entitled to reimbursement from the State for the increased costs that it incurred to comply with the requirements of the mandated program if it follows the provisions contained within the parameters and guidelines describing what the requirements are, and applies them accordingly. If city representatives have questions pertaining to the Animal Adoption Program, we encourage them to contact our office and we will assist them.

The city states, “. . . in this audit, the State accepted only detailed proof of actual expenditures and rejected budgeted amounts. This surprise change in documentation requirements is burdensome.” We are uncertain how the city arrived at this determination. We audit to the requirements of the adopted parameters and guidelines. These criteria require that all costs claimed be traceable to source documents. Budgeted information is not a source document that shows evidence of the validity of such costs.

**Attachment—  
City's Response to  
Draft Audit Report**

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MAYOR

DEPARTMENT OF  
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BRENDA F. BARNETTE  
GENERAL MANAGER

KATHLEEN J. DAVIS  
ASST. GENERAL MANAGER

March 29, 2011

John Chiang, California State Controller  
California State Controller's Office  
P.O. Box 94250-5874  
Sacramento, CA 94250-5874

Attention: James L. Spano, Chief  
Mandated Cost Audits Bureau, Division of Audits

Re: Response to Draft Audit Report of the City of Los Angeles Animal Adoption Program

Dear Mr. Chiang:

Attached are the main points of the response by the Department of Animal Services to the Draft Audit of the State Controller's Office, and a rough draft response to audit finding number 8 regarding eligibility of Prop F funding for construction of animal care centers. These attachments have been provided to the City Controller, Wendy Greuel because the draft audit was addressed to Ms. Greuel.

Due to the unreasonable time constraint imposed by the State on the Department, substantial and delinquent demand made by the State that the City provide detailed documentation for audit periods as long ago as 12 years, and strong likelihood that the with sufficient and fair notice to the City the actual reimbursement to the City would be closer to the actual amounts billed, the Department of Animal Services recommends that the City of Los Angeles direct the State of California to immediately and fully reimburse all amounts claimed by the Department of Animal Services that have not been paid by the State. Full reimbursement is proper because the claims filed by the City were submitted timely (except as noted), and were properly documented according to all of the State's guidelines and rules in place at the time each request for reimbursement was submitted. If the audit must be closed to meet a statutory deadline, we additionally request that the audit be reopened to allow adequate time to consider acceptance of offset allowances for Prop F funds expended on facility construction and other expenditures to comply with the Hayden Bill.

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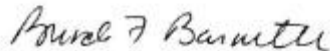
John Chiang, California State Controller  
Page 2

For all the reasons stated in the attached, the Department recommends that the City reject the State's audit as untimely, lacking proper notification, and contrary to the general purposes of good government, and as a result, reject the audit findings.

Rather than reducing the burden on local animal care and control agencies of implementing a valuable State-mandated law, the Hayden Bill, the entire audit process by the State Controller's Office is resulting in numerous large financial penalties to local jurisdictions for following the rules of the State and, therefore, for supporting the mandates of the Hayden Bill in good faith, and for reporting expenses honestly. The State Mandates reimbursement process, including the audit, should accomplish just the opposite, that is, it should support the good faith and honest efforts of local agencies to comply with the mandate.

Should you have any questions, please contact John Forland of our staff.

Thank you.



Brenda F. Barnette, General Manager  
Department of Animal Services

Attachments:

- Bullet Points
- Prop F Offsets

Copies:

- Wendy Greuel, Controller, City of Los Angeles
- Jim Venneman, Audit Manager, State Controller's Office
- Masha Vorobyova, Auditor, State Controller's Office
- Alan Burdick, Consultant, MGT of America



**Attachment the Los Angeles Department of Animal Services'  
Response to the State Controller's Office  
Draft Audit of Hayden Bill Mandated Reimbursement Requests  
1998-99 through 2007-08**

**Bullet Points**

Deadline:

- The State Controller's Office (State) extended the deadline for providing the Department's response to the by two days to allow submission of additional material when the Department has requested 30 days. The State's refusal to allow the time requested by the Department is based on the State's April 6, 2011 deadline to file the audit in order to stay within the two-year statute of limitations that an audit must be completed within two years of initiation.
- The State's refusal to allow additional time requested by the Department as allowed in the guidelines is attributable to the State's delay, not that of the Department. The Department was initially contacted by the State Controller's Office almost two years ago to schedule the audit. The entrance conference was held and for seven months the State auditors met with Department staff and documents were requested and provided. The Department provided over 200 hours to the audit. In November 2009, the State discontinued contact with the Department. In about June 2010 the Department was contacted by the State again, a new State auditor was assigned. A second entrance conference was held and the State periodically contacted the Department to request information. The Department provided at least 250 hours in support of this audit. Over 450 hours has been allocated by the Department to support the continuous audit process mostly because of the continual demand of the State auditors for exact detailed information of expenditures including vendor, year, and detailed description of each line item expenditure included in the request for reimbursement.
- The Department has acted in good faith to comply with all audit requests. In a few minor cases, the State auditor agreed to accept some samples of invoices instead of full and complete detailed verification.
- The State issued the draft audit in March, 2011. As of today, the State auditor is still determining methods to allocate various costs among what the State determines to be eligible and ineligible costs.

Additional Information Submitted or Eligible:

- The Department is providing additional detailed information to the State auditors as part of its response to the draft audit in the format and level of detail acceptable to the State auditors covering expenditures for medical supplies, cleaning supplies, animal food, staff training, and Prop F costs.
- Information for just the medical supplies, cleaning supplies, and animal food in a linked spreadsheet contains 4.5 million bits of information. These three accounts cover categories of expenditures that are essential for maintenance of animals. Additional information could be provided for other qualifying expenditures in other accounts, such as Account 4460, Private Vet Care, but there are not sufficient time or staff resources to continue to provide

millions of items of information going back 12 years for yet-to-be determined eligibility criteria. Some spay/neuter surgeries for adopted animals are required by the Hayden Bill. Also, details for purchases of eligible cleaning and maintenance supplies from accounts other than Account 6020 have not been calculated due to lack of time and staff resources.

- The Department has requested that the State consider reimbursement for medical supplies. (Account 3190) The State auditors had determined these costs were not eligible, but per our request, agreed to consider them. The State Controller has not yet developed a method to allocate these costs among their determination of what are eligible and ineligible costs. Today the Department is submitting detailed statements of expenditures by year and by line item for medical supplies for the audit period. Stray animals taken to the shelter have unknown medical conditions until they are given a check up and examined by a veterinarian. Animals are given two vaccinations, and medication for de-worming and flea control. This treatment is standard. If the animal is ill, additional treatment or medications could include IV fluid, splints, X-rays, or other treatment. The State auditors have yet to develop a formula for allocation of these costs.
- The State auditor has agreed that cleaning and other supplies (Account 6020) would be considered if expenses are determined to be eligible and if the Department is able to provide detailed records of expenditure by vendor and by invoice line item for all years audited. The Department was able to verify the largest vendors. These records are being submitted to the State Controller today.
- The State auditor has agreed that animal food (Account 4580) would be considered if the Department is able to provide detailed records of expenditure by vendor and by invoice line item for all years audited. These records are being submitted today.
- The State auditors rejected Department costs incurred in 2000 to provide initial training of staff for use of a new central database system called Chameleon purchased by the Department to comply with the requirements of the Hayden Bill. The Department was required by the State auditors to provide a list of all employees in the Department in the year 2000 who received the training in order to be reimbursed for it – a 10 years after the training was provided. No prior request to maintain these employee records was provided to the City. The Department was able to retrieve the records but only after considerable expense and time.

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- The State waited for as long as 12 years after the close of an audit period to conduct an audit of the claimed expenses incurred during that audit period, then requested a level of detailed proof (original document as proof of each line item expenditure, including name of vendor, quantity, and description of each item purchased) not previously requested or required. Many vendors have destroyed the detailed information (invoices) as the time exceeds any Statute of Limitations. The City General Services Department destroyed copies of invoices because these times exceeded the required records retention period. Requiring the City to guess in what future distant period the State may decide to audit records in any given year and be forced to retain all detailed expenditure records is a burden that is inefficient and unnecessary.
- Initially, the State accepted budgeted expenditures as sufficient proof of expenditure. However, in this audit, the State accepted only detailed proof of actual expenditures and rejected budgeted amounts. This surprise change in documentation requirements is burdensome.
- The State reimbursement process is inefficient. For example, due to the lack of prior notice as to the specific levels and form of proof required, lack of adequate prior guidelines, and delay in audit, the Department was required to allocate well over 450 hours of staff time to respond to this audit - at a time when both the State and City are undergoing significant staffing reductions and furloughs. Administration of animal care and control services depends on efficiency. Inefficiency of any type leads to fewer adoptions, less revenue, less policing, and more euthanasia. This is contrary to the intent of the Hayden Bill.
- The State process of sending the notices of the entrance conferences and exit conferences to the City of Los Angeles Department of Animal Services only, and the draft final audit to the City Controller only, and copying the Department is confusing.

**Attachment the Los Angeles Department of Animal Services'  
Response to the State Controller's Office  
Draft Audit of Hayden Bill Mandated Reimbursement Requests  
1998-99 through 2007-08**

**Summary of Department's Response to Finding 8 - Prop F Costs**

**Controller Finding:**

The City did not incur any increased costs to construct or remodel its animal shelters under Government Code section 17514. Government Code section 17514 states:

"Costs mandated by the state" means any increased costs which a local agency or school district is required to incur after July 1, 1980, as a result of any statute enacted on or after January 1, 1975, or any executive order implementing any statute enacted on or after January 1, 1975, which mandate a new program or higher level of service of an existing program within the meaning of Section 6 of Article XIII B of the California Constitution.

The Controller argued that Proposition F of 1990 required city's taxpayers to fund construction projects through additional levies made to their property taxes. As a result, the taxpayers and not the City incurred the cost. The Controller determined that the non-discretionary revenue source was used to build the City's animal shelters and none of the city's discretion general fund was involved.

**City Response:**

First, there should not seem to be any dispute whether there was a cost mandated by the State. The costs are clearly identified as reimbursable costs in the Controller's claiming instructions for the Hayden Bill which meets all the requirements of Section 17514 above.

The Controller's issue seems to be, are these local revenues or "proceeds of taxes." The state has the right to preclude the City from being reimbursed for state, federal or grant funds, but not for local revenues which are proceeds of taxes.

On January 31, 2001, the Los Angeles City Council adopted a resolution providing for the issuance and sale of the City of Los Angeles General Obligation Bonds authorized by the voters by Proposition F, in an aggregate principal amount not to exceed \$201.3 million for a variety of local projects and services. The Council identified up to \$36.5 million for animal shelter facilities. These are clearly local revenues and to the extent the funds are used to pay for state mandate programs, there should be reimbursed by the state.

A similar issue was contested in *Redevelopment Agency v. Commission on State Mandates* (1997) 55 Cal.App.4th 976. The court set forth the following analysis:



The California Supreme Court's summary of the history and substance of the law applicable to state mandates, commented: "Through adoption of Proposition 13 in 1978, the voters added article XIII A to the California Constitution, which 'imposes a limit on the power of state and local governments to adopt and levy taxes. [Citation.]' [Citation.] The next year, the voters added article XIII B to the Constitution, which 'impose[s] a complementary limit on the rate of growth in governmental spending.' [Citation.] These two constitutional articles 'work in tandem, together restricting California governments' power both to levy and to spend for public purposes.' [Citation.] Their goals are 'to protect residents from excessive taxation and government spending. [Citation.]" [Citation.]" (County of San Diego v. State of California, *supra*, 15 Cal.4th at pp. 80-81.)

\* \* \*

In County of San Diego v. State of California, *supra*, 15 Cal.4th at page 81, the Supreme Court explained that section 6 represents recognition that together articles XIII A and XIII B severely restrict the taxing and spending powers of local agencies. The purpose of the section is to preclude the state from shifting financial responsibility for governmental functions to local agencies, which are ill equipped to undertake increased financial responsibilities because they are subject to taxing and spending limitations under articles XIII A and XIII B. (County of San Diego v. State of California, *supra*, at p. 81.)

\* \* \*

In County of Placer v. Corin (1980) 113 Cal.App.3d 443, 451 [170 Cal.Rptr. 232], the court defined "proceeds of taxes" in this way: "Under article XIII B, with the exception of state subventions, the items that make up the scope of 'proceeds of taxes' 'concern charges levied to raise general revenues for the local entity. 'Proceeds of taxes,' 'in addition to 'all tax revenues' includes 'proceeds ... from ... regulatory licenses, user charges, and user fees [only] to the extent that such proceeds exceed the costs reasonably borne by such entity in providing the regulation, product or service....' (§ 8, subd. (c).) (Italics added.) Such 'excess' regulatory or user fees are but taxes for the raising of general revenue for the entity. [Citations.] Moreover, to the extent that an assessment results in revenue above the cost of the improvement or is of general public benefit, it is no longer a special assessment but a tax. [Citation.] We conclude 'proceeds of taxes' generally contemplates only those impositions which raise general tax revenues for the entity." (Italics added.) (Id. at 980-984.)

In summary, the courts have held, and the Commission will follow suit in holding, that Proposition F funds are clearly proceeds of taxes and local revenue and to the extent they

were used to pay for state mandated costs associated with the increased cost of building animal shelters due to the Hayden bill, should be reimbursed by the State.



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